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# Greece: a Study of an Intermediately Developed Economy With Emphasis on Its Reaction to Economic Policy and Trade Preferences.

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The Louisiana State University and Agricultural  
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GREECE: A STUDY OF AN INTERMEDIATELY DEVELOPED ECONOMY  
WITH EMPHASIS ON ITS REACTION TO ECONOMIC POLICY  
AND TRADE PREFERENCES

A Dissertation

Submitted to the Graduate Faculty of the  
Louisiana State University and  
Agricultural and Mechanical College  
in partial fulfillment of the  
requirements for the degree of  
Doctor of Philosophy

in

The Department of Economics

by  
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## FOREWARD

The last fifteen years were a time of rapid and often disruptive political and economic change for the world. New institutions were cultivated and cautiously nurtured into bloom while advances in economic and social well-being were pursued world wide by whatever methods seemed suitable and feasible for the nation or nations involved. One of the most significant institutions to emerge from this post war era was born twelve years after V-E Day in March of 1957 when the Treaty of Rome was signed establishing the European Economic Community (EEC). The extensive economic upheaval following World War II initiated a spirit of cooperation which was to be formalized, expanded and evolved by this Treaty. According to the document itself: "It shall be the aim of the Community, by establishing a Common Market and progressively approximating the economic policies of Member States, to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increased stability, an accelerated raising of the standard of living and closer relations between its Member States." (Article 2) The evolution of the EEC and its "successes" and "failures" in accomplishing its objectives have been well studied and documented since its beginnings on the 25th of March 1957.<sup>1</sup>

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<sup>1</sup>See Appendix II for appropriate references.

On the 8th of June 1959, the government of Greece indicated their faith in the beneficial aspects of the European Economic Community by submitting a request for exploratory talks with the Community concerning Article 238 of the Treaty of Rome, i.e., the Article of Association.<sup>2</sup> The request culminated in a second document signed on July 9, 1961, in Athens, Greece, which introduced on November of the following year the procedures through which Greece could attain full membership in the EEC. The Athens Treaty was one of association rather than membership pure and simple because it was necessary for Greece to advance toward full integration at a more deliberate pace than that allowed under Article 237, the Membership Clause of the Rome Treaty.

Association was considered a prerequisite because of the vastly different levels of development that existed between Greece and the Six (the Six being the original members of the EEC--France, West Germany, Italy and the Benelux nations of Belgium, Luxembourg and the Netherlands). Consequently a so-called "harmonization" procedure<sup>3</sup> was constructed by the negotiating parties which reflected the requirements that the Six considered decisive if full membership for Greece in the Common Market was to be forthcoming. At the same time, however, these procedures allowed the Greek nation time to satisfy any initial

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<sup>2</sup>Article 238 of the Rome Treaty states: "The Community may conclude with a third country, a union of States or an international organization, agreements creating an association embodying reciprocal rights and obligations, joint actions and special procedures."

<sup>3</sup>"Harmonization" involves the total coordination of all economic policies in Greece with those prevailing in the Community.

requirements they themselves considered crucial before opening up their economy fully and completely to the markets and objectives of the Western European nations.<sup>4</sup>

The exact influence that economic integration and trade preferences introduces in an underdeveloped area has increasingly come to the forefront in current economic literature.<sup>5</sup> Although the issue of full membership for Greece in the EEC does not arise until 1984, sufficient time has passed since the Treaty to gain valuable insight into the degree of success that this attempt, to tie the lifeblood of Greece with that of another body much more economically advanced, has enjoyed.

A second influence which grew in prominence as an instrument to promote economic expansion in the post war era is public economic policy. Alternative policy influences may take a direct or an indirect form with the choice partly determined by the overall objectives and philosophy of the nation itself. Direct policies generally necessitate an administrative mechanism to plan and implement public policies. This involves the creation of a planning commission or agency which determines objectives, formulates proposals to secure these objectives and implements these proposals through appropriate action. An indirect form of public policy, on the other hand, relies mainly on the market

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<sup>4</sup>EEC Bulletin, V, No. 9/10 (1962), p. 8.

<sup>5</sup>See Appendix I for references to the literature on economic integration. Information on trade preferences can be found in the text and appendix of Harry G. Johnson's Economic Policies Toward Less Developed Countries (Washington, D. C.: The Brookings Institution, 1967) and in the papers and proceedings of the United Nation's Committee on Trade and Development (UNCTAD).

mechanism, rather than formal planning machinery, to exercise its influence on the economy. Some of the devices which can be altered under indirect methods to influence resource allocation in the economy are pricing policies for state enterprises and public utilities, foreign exchange rates, subsidies, taxes, tariffs, interest rates and price support programs.

The choice between the less sophisticated indirect controls and the predetermined controls available to planned economies is but one of many choices which less developed areas must make about their future path of development. However, it is one which will reverberate back onto their economic make-up for many years. To examine how successful Greece's indirect policies were, this dissertation studies their impact on the resource allocation and the economic structure of the nation. To determine how successful the efforts of Greek negotiators were to minimize adverse consequences on resource utilization in their country and to maximize potential gains from the Athens Treaty, we also examine the resulting impact of that Treaty on Greek resources and on the economic structure of the nation.

The actual harmonization process undertaken in Greece in conjunction with the EEC association and the domestic policies imposed to alter resource allocation provide well-documented source materials which can help bridge the gap between elegant theoretical models and the practical problems and issues faced daily in the developing world. This dissertation is primarily a case study designed to illustrate a number of theoretical and analytical concepts debated in the literature

of development economics. Secondary considerations derived from this major purpose include the appropriateness of existing assumptions in development theory, considerations in the establishment of alternative industrialization schemes, the importance of defining goals, possible methods of implementing economic progress, measurement of the progress of development in an economy sensitive to foreign trade, and, most importantly, defining the role and the influence of trade preferences and economic policy to stimulate economic expansion and serve as an engine of economic growth in Greece.

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## ABSTRACT

Economic development became a major world concern in the post World War II years. However, since each nation faced and had to overcome its own unique constraints to achieve a lasting economic expansion in its agricultural, industrial and external sectors, no single description of development or prescription for development met the needs of every situation. Certain growth characteristics reappeared often enough to be identified; others were more elusive. Similarly, certain prescriptive techniques were advocated in sufficiently strong doses to warrant further investigation. A thorough treatment of all the relevant aspects is impossible in a single volume; consequently, our study deals only with the role that economic policy and trade preferences played in a single nation's economic development and transformation.

Greece was chosen as the nation of study in part because it receives preferential access to EEC markets as the result of an agreement it signed with the EEC in November, 1962. This agreement allows Greek industrial (and many agricultural) products to freely enter EEC markets. Full Community membership becomes possible in 1984. The second prescription--that of using domestic policy to influence resource allocation--likewise is part of the Greek development schema. Numerous legislative and administrative directives introduced by the

Greek government in the last fifteen years focus attention on and help overcome the development needs of the nation.

Greek industry, agriculture and foreign trade prospered under the aid of the EEC agreement and judicious domestic policies. Throughout the sixties, numerous alterations in the basic economic structure of Greece took place to establish a climate appropriate to self-sustained development. Agriculturally, this involved developing awareness of the importance of adaptability, as well as in introducing new crops and new methods of production. Moreover, government subsidies and support prices were employed in such ways as to expand the realm of the price mechanism as a director of resources.

The virtues of the price mechanism are further reinforced by industrial expansion. Greece's open economy allows relatively free entry and exit for exports and imports, thereby providing a more appropriate comparison to world price-cost relationships. This eliminates some of the risk and difficulty of cost allocation in investment decisions, fosters competitive conditions and encourages an allocation of resources in the industrial sector in line with market forces. The phenomenal increase in industrial development and exports over the last five years rather blatantly illustrates the success of this approach for Greece. In addition, a stronger base from which to build future development now exists in Greece.

The EEC association helped the industrial and agricultural sectors to profit from its increased production possibilities by opening up free access in large foreign markets for Greek products.

It also promoted greater freedom of choice in regard to future expansions.

A phenomenal level of price and population stability, easy access to major markets and an interested, but not overbearing government, are key assets in the Greek development effort. The government's role, although no more precisely defined than to promote and foster the expansion of the nation's standard of living, is a crucial stimulus to the development of what originally was a very weak market mechanism. By encouraging its use and by developing confidence in it, economic expansion became a process in which freedom of enterprise strongly compliments planning and direction. Each plays its own role and each deserves, together with the EEC agreement, considerable credit for the progress which occurred in Greece since 1960.

## **PART I: THE POLITICAL AND ECONOMIC SETTING**

## CHAPTER I: INTRODUCTION

### STATEMENT OF THE PROBLEM

An overview of the available literature on economic development issues indicates a significant gap between theoretical presentations and practical applications. Ever since the preoccupation with economic expansion after World War II arose, theoretical explanations predominated the study of economic development, staying well ahead of studies employing these precepts to analyze actual development situations. This chasm is most readily apparent in the developing nations where rudimentary economic knowledge is seldom applied to dealings involving even the most simple of economic issues.<sup>1</sup> At the other end of the spectrum in development economics rests the strict practitioner who views the development process through his unique experiences as everywhere singular, finding no similarity in the overall relationships that economic analysis might afford. The tendency of the practitioner to ignore economic principles is reinforced by the theorists's analysis which by necessity rests on elegant model building techniques usually characterized by strong assumptions about certainty and about the availability of comprehensive data. These models by their very nature are unable to fully acknowledge the difficult task of defining the

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<sup>1</sup>Gustav F. Papenek, Daniel M. Schydrowsky and Joseph J. Stern, Decision Making for Economic Development: Text and Cases (Boston: Houghton Mifflin Company, 1971), p. 1.

complex goals of a society, and therefore, usually postulate from very simple objectives not immediately applicable to the problems the practitioner faces. However, if economists are to fully assist development efforts in the Third World (especially those involving some degree of planning) avoiding both extremes appears necessary.

The use of case studies in which the information available to both ends of this spectrum can be synthesized in one way to successfully bridge this gap between theory and practice. Although each nation presents a given social, cultural and political framework, a given amount of available statistical data and a specific set of constraints and values to resolve, precise analytical techniques utilizing established economic precepts can draw from this melange certain considerations or characteristics common to more than a single development situation; that is, the theoretical and methodological approaches used to examine the unique quality of each case should also succeed in generating some common threads enabling general principles to be woven from the concrete case. At the same time it should allow for the acknowledgement and compensation of all, or most all, of the limitations this background imposes on the decision maker, particularly the uncertainty which prevails in such unstable entities as underdeveloped nations.

A case study approach is one of the most feasible methods of incorporating the theoretical with the everyday situation, provided it meets certain criteria. First of all it must cover a wide enough spectrum of topics to elaborate on specific issues or decisions of common concern or interest in more than the single area under study.



Second, it must illustrate actual problem situations together with their eventual resolution (if such exist). And finally, it should indicate through its use of economic analysis, other possible alternative actions which might have accomplished the same thing.

Greece was chosen as the area of study in this dissertation with these criteria in mind. It is a particularly interesting and useful area to study in part because its ties to the European Community enable it to realize trade preferences--something less developed areas everywhere have been anxious to implement as an aid to development. Here their significance in an actual situation is evaluated. Of equal importance are the numerous indirect but deliberate policy measures Greece used to affect its economic expansion. Simultaneously it relied heavily on the price mechanism as the means to implement its public policies. This somewhat unusual emphasis on the price system in a developing area merits our attention and evaluation since its use is so often downplayed or disparaged in the Third World (when a priori it would seem to be a most useful mechanism for guiding and rationing resources). Because economic policy and trade preferences are also areas of deep concern in other less developed nations, although the emphasis and role each plays in economic development varies with national circumstances,<sup>2</sup> the conclusions and analysis reached here will be of interest.

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<sup>2</sup>Trade preferences are a major issue of discussion in numerous UNCTAD presentations (especially Proceedings of the United Nation's Conference on Trade and Development, Volumes 1-6, 1964) where the restrictive nature of trade practices in advanced areas are dealt with in detail. The role of economic policy is closely associated with the use

The role of trade preferences, public policy and the market mechanism in the economic expansion of less developed nations also was a concern of theoretical writers throughout the last two decades.<sup>3</sup> An understanding of the theoretical works is essential in comprehending the appropriate situation(s) under which trade preferences and economic policy can serve as tools of development. By choosing a nation such as Greece where uncertainty and less than complete knowledge prevails as the area onto which to impose this theoretical background, we can examine and analyze the practical problems and repercussions which arise in the application of trade preferences and economic policy. In return we can also shed light on new areas where additional theoretical

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<sup>2</sup>(cont) of planning mechanisms to promote development; however, indirect policy means and ends are also discussed extensively in many sources including publications of the United Nations; B. Hansen and G. A. Marzouk's Development and Economic Policy in the UAR (Egypt) (Amsterdam: North Holland, 1965); V. L. Urquidí, The Challenge of Development in Latin America (New York: Praeger, 1964); M. ul Haq, The Strategy of Economic Planning (London: Oxford University Press, 1966).

<sup>3</sup>Two books which deal extensively with the theoretical issues in response or clarification of the position of UNCTAD are Harry G. Johnson's Economic Policies toward Less Developed Countries (Washington, D. C.: The Brookings Institution, 1967) and Sidney G. Weintraub's Trade Policy for Less Developed Countries (New York: Praeger, 1966). The role of economic policy and the market mechanism are dealt with also in many places including R. N. Tripathy, "Criteria for the Choice of Investment Projects in Development Planning," Indian Journal of Economics, XLV, No. 176 (July 1964), 69-81; A. Qayum, "Long Term Growth of a Developing Economy," Economia Internazionale, XVII, No. 3 (August 1964), 437-45; Walter Isard and John H. Cumberland, Developed Areas: Papers and Proceedings of the First Study Conference on Problems of Economic Development (Paris: OECD Publications Center, 1961); and I. Adelman and E. Thorbecke, The Theory and Design of Economic Development (Baltimore: Johns Hopkins Press, 1966). The overall relationship between economic policy and the methods used to implement it are discussed at length in Hla Myint's Economic Theory and the Underdeveloped Countries (London: Oxford University Press, 1971).

analysis is needed. The additional insight will hopefully encourage more in-depth studies into other such concerns in the less developed areas by indicating the benefits which arise from a blending of theoretical background and precepts with a given situation.<sup>4</sup>

Polarization of non-member poorer nations from richer member nations of the world is likely unless additional cooperation with other nations and established unionization schemes becomes a reality.<sup>5</sup> The quest for economic expansion usually leads to trade, preferential groupings, aid, preferences, or other such mechanisms which foster additional ties and/or further cooperation between the various nations of the world. The potential impact of such alternative arrangements of trade between the two groups of nations influences their overall development scheme, serving in a positive or negative way. Consequently, studies such as this one into discriminatory methods and their likely effects on trade benefits/losses to related states, can provide supplementary information useful in the search for economic expansion. In particular, studies providing insight into the complexity of economic arrangements joining economies at different stages of development (where no easy or simple solutions to economic rights or obligations or consequences are in evidence) can serve as an important adjunct to traditional outlooks. A study of the scope of Greek and Greek-EEC arrangements and their denouement on the Greek nation is one place where this

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<sup>4</sup>An understanding of economic theory helps one to isolate key variables; in addition, it assists the practitioner in developing the skills and rigor necessary for coping with a multi-variable situation.

<sup>5</sup>This in no way is meant to imply that it is the only possible trading policy alternative in the future. It is the concern of this paper however and is stressed for this reason.

widening and augmenting of traditional analysis can begin. The association between Greece and the EEC is, however, only one representative of a complex whole, chosen because of the availability of information, relevance, and its ability to shed additional light on the present state of economic understanding on the issues of economic policy and trade preferences as tools of development.

#### METHODOLOGY OF THE STUDY

Our analysis is meaningful only if we have a full understanding of the past and current history and objectives of the Greek economy. By limiting the study to a single nation, this essential background information is more easily provided (and the length of the dissertation kept more manageable). A large amount of statistical information<sup>6</sup> is provided together with detailed descriptions of the economy and its institutional structure. The picture presented here is as detailed a picture as is available to the government and international officials. The gaps which still exist arise from deficiencies in available data.

Once the historical and statistical data are presented, an interpretation of this data with the help of available economic tools takes place. This analysis adds depth to (and perhaps some general

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<sup>6</sup>The data in the study are derived from five primary sources--the Greek Statistical Service (NSSG), the Bank of Greece, the Organization for Economic Co-operation and Development (OECD), the United States Government and the United Nations. All of these sources publish annual or biannual economic reports which deal with Greece and/or with the Western and Southern European nations.

tenets about) the process of economic transformation<sup>7</sup> and growth. The statistical indicators are further used to measure the impact of certain development policies on domestic expansion, especially those bearing on trade orientation and production patterns.

We begin our study with a description of the prevailing economic situation of Greece at the start of the association period (1959-1962). Once this is established, the various changes in the economic structure<sup>8</sup> arising in the 1962-1970 period and the methods introduced to foster these changes are examined. Once this historical picture is completed, we then explore and analyze the role that trade preferences (the EEC association) and public policy had in the expansion and development of agriculture, industry and the balance of payments of the Greek economy, employing explicit and implicit use of economic theory to assist in interpreting the available factual data. In this manner we can discern and delineate several important variables in Greek development efforts. In addition we can judge the policies undertaken to improve the utilization of scarce resources. Once this analysis

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<sup>7</sup>By economic transformation we mean not only economic growth but also appropriate changes in crucial factors which control the quality of life, thereby breaking down the obstacles to growth and promoting and/or creating an environment in which self-generated changes in production patterns can occur.

<sup>8</sup>The term "economic structure" or "structure of the economy" refers to the distribution of resource allocation or pattern of production within an economy. For example, if at the start of a period the bulk of output is agricultural and over time industry comes to play a larger role than it did at the start of the period, we have had a change in the structure of the economy. In addition, if resources within a given sector are altered, i.e., if more automobiles and fewer tractors are produced there has been a change in the economic or industrial structure.

is completed a discussion of some fundamental issues of economic development is undertaken in light of our conclusions about the Greek economy.

#### LIMITING FACTORS IN THE STUDY

This approach may be criticized for its imprecision. However, even rigorous mathematical and statistical attempts by others to measure "dynamic effects" of important variables similar to ones used in our study are subject to controversy.<sup>9</sup> The basic problem which plagues any attempts to precisely evaluate the influence of preferential trade conditions or policy influences is the necessity of comparing an actual situation to a hypothetical one describing the same areas without such considerations.<sup>10</sup> In addition long-term trends generated by economic cooperation and incentive policies may not always be evident from empirical investigations.

Such difficulties force us to rely on items whose measurements are possible, i. e., such things as changes in foreign exchange

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<sup>9</sup>Discussion about attempts to measure the net gains or losses of the "dynamic effects" of a regional effort can be found in the following sources: F. Kahnert, P. Richards, E. Stoutjesdijk, and P. Thomopoulos, Economic Integration Among Developing Countries (Paris: OECD Development Centre Study, 1969); D. Ghai, "Territorial Distribution of the Benefits and Costs of the East African Common Market," in Federation in East Africa, C. Leys and P. Robson editors, (Nairobi: Afpub, 1965); and B. F. Massell, East Africa Economic Union: An Evaluation and Some Implications for Policy (California: The Rand Corporation, 1963).

<sup>10</sup>Analytical studies can however help isolate the overall effects--for example, gains in welfare to agriculture may be more than offset by a decline in welfare in the industrial sector; or, incomes may increase, but unemployment grows as well; or, lowered protection may create an unfavorable long-run growth situation. Not all of these components lend themselves easily to comparative measurement, yet each should be considered in a thorough evaluation of a nation's development progress.

earnings<sup>11</sup> and industrial production, changes in the direction of import and export flows between the relevant areas, rates of growth of particular types of imports and exports, changes in economic structure as reflected in output patterns, or simply a listing of changes in the developing area which can be directly related to the local policies pursued or to trade preferences--measuring where possible such listings in terms of their monetary value. Unfortunately none of these in and of itself provides conclusive proof about the benefits and costs accruing to the nations involved. But by viewing this information with the help of economic theory and analysis a deeper understanding of the problems the practitioner faces can unfold.

Accordingly empirical and verbal details and analysis concerning the effects that changing factor supplies, changing industrial concentration and operational scale, as well as changing technological considerations have exerted on the basic structure of the Greek economy are part of this dissertation. An effort is made to discern whether these were in response to the EEC association agreement or to domestic economic policy, or whether they would have evolved spontaneously.

The likely situation had Greece not employed certain legislative measures or associated with the EEC, i.e., the role of the hypothetical, also is helpful, although again not subject to precise quantification. We also know that the higher the initial trade barriers the greater the potential benefit to a country from joining a regional

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<sup>11</sup>This is particularly important in a developing area where foreign exchange constraints exist.

unit.<sup>12</sup> Consequently, the initial tariff rate compared to the (likely) common external tariff can give some indication of what the results of association will be. Furthermore, the commodities most likely to benefit or lose from preferences can generally be identified. If the Athens Treaty is indeed preferential, exports and imports to Greece from the EEC should grow faster than those from other regions. Exports increase because commercial barriers are lowered making Greek goods more competitive in Community markets; imports expand because as Greek tariffs on EEC goods decline, their goods become relatively cheaper. Under ceteris parabis conditions, this is easy enough to check out. Unfortunately, outside factors influence exports and imports and may even in this simple case account for any measurable differences.<sup>13</sup> The type of commodity likely to benefit from an association or lower tariff rates are detailed in the chapters dealing with agricultural and industrial development in Greece.

Other measuring rods of the success of trade concessions and economic policy are the rate of increase in GNP; changes in the composition and rate of growth of Greek-EEC exports and imports and corresponding changes in third areas; changes in the composition of

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<sup>12</sup>Ingo Walter (in The European Common Market, pp. 74-75) shows that the greatest gain in the rate of growth of intra-EEC trade occurred in the nations with the greatest internal tariff decline. It is not possible, however, to do such ranking with only one nation entry, although comparative rates can be examined.

<sup>13</sup>For example, the decline in United States aid at this time hazes the picture as does the effect of expanding incomes in the Greek nation itself, and the choosing of an appropriate time period as "normal".



domestic income; and the relative importance of Greek products in the European Community. Another measurable aspect of interest is the rate of change in the Greek trade balance with the Community and with other nations. These factors are examined in the latter part of this dissertation.

It is somewhat difficult to define precisely the role that some factors such as tastes, time, expectations, and other association agreements actually played in trade and GNP growth in Greece. We can, however, develop useful information about production cost factors, taste and quality conditions, demand patterns, alternative sources of supply, etc., which can help one predict the likely consequences in this particular case.

The inability to measure precisely the influence of a multitude of variables remains the largest inherent weakness in a study of this sort. Furthermore, any such trends developed are based on the assumption of continuity in policies, rational behavior, etc. . Yet in a nation where political upheaval is imminently possible, this weakens the argument.

Likewise the continuous evolution which characterizes the European Community and the government of Greece also limits the strength of the conclusions. Changes in direction with regard to membership policies, additional preferential agreements, the common agricultural policy, tax reforms, investment decisions, etc., can restructure the outcome sufficiently to negate some of the general indications offered here. The Athens Treaty itself, while initially a unique force

fostering change may find its momentum eroded or strengthened in subsequent periods by political actions.

Currently four nations--Great Britain, Denmark, Norway and Ireland--are preparing for eventual full membership in the Community. Should these efforts prove successful, Greece's position vis à vis the current Community structure also changes. Also preferential agreements with former colonies and other states are constantly being revised and subsequently may alter the market for a particular good of significance to the Greek nation. In addition, the internal political position of Greece is subject to changes, as are the indirect policy controls used. Wherever possible these potential influences are acknowledged, but only the situation existing on December 31, 1970, is included for full consideration.

The study assumes that Greece will become a full member of the EEC in November 1984. This membership will further alter the total picture, eliminating some of the problems considered crucial at this point (for example, the CAP, quota difficulties and levy system hardships) and introducing some completely new relationships. This, however, is generally taken into consideration in the analysis given.

At this point Greek tariffs on Community products have not changed sizeably.<sup>14</sup> Thus Greece conserves, in very large measure, the protection of its interior production. The additional power that full

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<sup>14</sup>By November 1972 tariffs on products manufactured in Greece will have decreased only 20 per cent. In addition, Greece has the right to keep tariffs on goods produced by new industries, or even introduce tariffs with Community permission.

membership brings will allow Greece both more and less control over its domestic interests. Last, but not least, is the inability of Greece under the current political situation to negotiate on anything more than basic treaty considerations.<sup>15</sup> The influence of these factors can be examined and evaluated to an extent, but no precise measurement is possible.

#### BACKGROUND INFORMATION AND GENERAL SETTING

When choosing the time period for comparing the Greek economy of today with the pre-association period, the situation existing in Greece since 1950 must be considered. The Greek economy continued to suffer from serious disruptions for a number of years after strife ceased for other Western European nations. In the 1950's Greece finally achieved its desire for civil peace and began its economic reconstruction. The devastation wrought by a world-wide depression, a global war and a civil war was extensive and little remained from which to build a modern economy.<sup>16</sup>

In the early fifties a conscious effort was made to establish the stability of the Greek currency and to stifle the inflationary pressures which were evident. By the mid-1950's economic stability

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<sup>15</sup>Articles 65-71 of the Athens Treaty define the administrative machinery of the EEC association. It requires a Committee of Parliament for altering or updating the general agreement. Since April 1967 no Parliament has sat in Greece; therefore, any modification of the Agreement requiring action of a Committee of Parliament cannot take place at this time.

<sup>16</sup>Wray O. Candilis, The Economy of Greece, 1944-66: Efforts for Stability and Development, Praeger Special Studies in International Economics and Development (New York: F. A. Praeger, 1968), pp. 23-79.

was re-established and the long road to economic expansion and growth begun. Until 1962 substantial foreign economic and military assistance was flowing into Greece. This minimized pressures arising from balance of payments difficulties; it may also influence somewhat the economic situation of Greece in the pre-association period.

The Greek economy is characterized by price stability since the mid-fifties. Price fluctuations therefore will not distort economic relationships. Moreover, pressures arising from excess population are non-existent, although extensive migration out of Greece influences resource prices somewhat.<sup>17</sup> Keeping all these factors in mind, the periods 1959-62 and 1967-69 are best for comparative purposes, with additional data on other years provided where available or desirable.

It should also be pointed out that traditionally the crop structure in Greece centered around tobacco and raisins--neither of which was noted for its unhindered movement among EEC members, nor a strong income elasticity of demand. Consequently they faced a less than desirable long-run trade expansion trend. Furthermore, dealing with agricultural commodities is complicated by the EEC's protectionist common agricultural policies which as yet do not apply fully to Greece. However, to the extent that changes in Greek agricultural policy designed to parallel Community policies increased the efficiency of resource allocation, and to the extent that the EEC provided special agricultural benefits to Greece, additional trade in agricultural products should and did prosper.

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<sup>17</sup>See below Chapter III.

Industrially Greece entered into the 1962 Athens Treaty against even more distressing odds than it faced agriculturally. Industrial exports accounted for less than 10 per cent of total Greek exports and even a smaller percentage reached the Community nations, despite the fact that over 39 per cent of total Greek exports were sent to their markets. Although it is perhaps unrealistic to expect substantial increases in machinery and manufactures exports to the EEC since 1962, certain industrial exports should increase substantially if the Treaty is successful--especially since industrial exports now amount to over 40 per cent of total Greek exports. As we will see, the success of the Greek economy in restructuring and expanding its production patterns and in making preferential access work for them led to increased importance for industrial exports from Greece to the EEC.

#### BASIC CONSIDERATIONS INVOLVING THE ASSOCIATION AGREEMENT

At the time of association, the Greek economy served in a "complementary" rather than in a "competitive" manner to the EEC; i.e., there was very little similarity in their respective output structures.<sup>18</sup> Consequently successful integration at that point served Greece at the expense of third parties.<sup>19</sup> Our concern rests on whether the diversification of the Greek economy since 1962 has succeeded in expanding the

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<sup>18</sup>This uses the older (Vinerian) definition of terms as opposed to the more recent definition which views complementary economies as those where substantial differences in production costs between nations exist for most goods produced. For further discussion of the differences, see Ingo Walter, The European Common Market: Growth Patterns of Trade and Production (New York: F. A. Praeger, 1967), pp. 31-34.

<sup>19</sup>See Appendix I.

"competitiveness" between the two areas. Greater potential benefit exists if greater "competitiveness" exists, because other things equal, the more efficient firms will produce goods and the marginal firms will be eliminated. Under a "complementary" situation, tariff rates already tend to be minimal and a less efficient allocation of resources where high cost producers substitute for low cost producers is likely. In the case of "complementary" nations the expansion in trade volume comes about primarily at the expense of non-member countries and with few shifts, if any, in the locus of production.

The initial concern with diversification and growth of the Greek economy grew out of the above considerations. However, freely opening up its economy to competition from Western European manufactures as early as 1962 would have solved nothing and probably would have destroyed the possibility of future diversification. Two major elements hindering the establishment of competitive industries in the early 1960's were market size limitations and an insufficient development of infrastructure. While the opening up of a potentially larger market is never by itself a panacea for existing problems, the chances of modernizing Greek industries successfully are certainly enhanced when a larger market is coupled with the development of a strengthened infrastructure where marketing, communication and transportation linkage facilities between the regions of Greece and between Greece and international markets are greatly expanded.

Another significant difficulty encountered in linking Greece with the EEC is the substantial distance, both economic and geographic, between the two. A study by Beckerman correlating economic distance to

the volume of trade, shows a high rank correlation between the amount of trade and the closeness of the Western European nations.<sup>20</sup> Balassa, also studying the relationship economic distance has on unionization,<sup>21</sup> states that the further the distance between the countries included in the arrangement, the fewer the noticeable advantages. As an example he goes on to show how a union of France, Germany, Belgium-Luxembourg, and the Netherlands, loses rather than gains if Italy is included in the picture.

#### ORGANIZATION OF THE STUDY

Fairly extensive background material precedes the analytical sections to provide an overview of the relevant relationships and to acquaint the reader with the general environment surrounding the study. In the next two chapters this background unfolds. It is primarily concerned with the fundamental characteristics of the Greek economy and an exploration of the terms of agreement between Greece and the EEC.<sup>22</sup>

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<sup>20</sup>W. Beckerman, "Distance and Pattern in Intra-European Trade," Review of Economics and Statistics, 38 (February 1956), pp. 31-40.

<sup>21</sup>Bela Balassa, The Theory of Economic Integration (Homewood, Illinois: Richard D. Irwin, 1962), pp. 42-43.

<sup>22</sup>In addition, Appendix I provides the reader with a brief survey of the literature on economic integration and regional development. While the survey is perhaps superficial it does help define the variables which are dealt with throughout the study. The Rome Treaty and the intricacies of the European Community are the subjects of a second appendix. Comprehending the responsibilities and privileges of Community membership is the first step in understanding the dynamic implications for Greece should it become a full Community member in 1984. Since some of the basic articles in the Rome Treaty are temporarily negated by the Athens Treaty, their influence on the Greek economy can be felt only in the future. However, an awareness of these principles at the current time aids the harmonization process.

The next chapter explores the Athens Treaty in some detail. It explains the tariff abolition provisions and the procedures under which Greece is to be guided in the harmonization process to be completed prior to November 1, 1984. The implications of the Treaty for the country's economic development, one of the major concerns of the later chapters is facilitated by this detailed explanation. Numerous references are made to this chapter in the latter part of this dissertation.

A brief overview of the Greek economy is provided in Chapter III. It is intended to acquaint the reader with the current state of conditions in Greece and to provide a glimpse at the factors leading up to this state. More details emerge later in the study but this survey of the general environment provides the background for the more specific information presented later.

These two chapters (and Appendices I and II) serve primarily as a foreward to the second half of the study where the influences the EEC agreement and domestic policy measures have exerted (or have not exerted) on Greek agriculture and industry, finance and trade, investment and resource expansion and on other related aspects of Greek economic life are explored. They also permit a more extensive critical appraisal of economic policies pursued in Greece by familiarizing the reader with the current situation.

The Athens Treaty involves many specific details but at the same time it makes reference to the general precepts stated in the Rome Treaty. Since Greece anticipates eventual membership in the EEC it must make alterations in its economy with the Rome Treaty in mind. Consequently, evaluations and studies in Part II relate to the Rome



Treaty as much as to the Athens one. References also are made in the course of the later chapters to studies done by Triantis and Costis.<sup>23</sup>

Part II is divided into three detailed investigations. Chapter IV analyzes the impact of the Rome Treaty, the Athens Treaty and domestic economic policies on Greek agricultural production; Chapter V on Greek manufacturing, mining and industrial expansion; and Chapter VI concentrates on their effects on selected aspects of the balance of payments. The final chapter of Part II attempts to draw forth the implications of this case study compactly, weighing the information established in the preceding three chapters to evaluate certain issues in development literature.

The question which the study evolves around is whether Greece's interests and continued economic expansion can best be served by altering the existing EEC agreement or by reformulating domestic economic policies in terms of their existing accomplishments and failures and future potential. The many interesting by-products of this case study also set the scene for an evaluation of other important issues currently of interest to development economists, but which are perhaps only indirectly of interest to the Greek situation.

#### COMPLETED RESEARCH OF INTEREST

In the middle sixties two research projects were completed relating to this paper's topic--a 1965 monograph authored by S. G.

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<sup>23</sup>S. G. Triantis, Common Market and Economic Development: The EEC and Greece (Athens: Centre of Planning and Economic Research, 1965); and Hariolas G. Costis, "Greece and the EEC: A Study of Resource Development Potentialities," (Unpublished Doctoral Dissertation, Department of Economics, University of Texas, 1966).

Triantis, entitled Common Market and Economic Development: The EEC and Greece, and a 1966 unpublished doctoral dissertation by Hariolas G. Costis entitled "Greece and the EEC: A Study of Resource Development Potentialities."<sup>24</sup> While the Triantis monograph was very pessimistic about any potential economic gains for Greece from within or without the association, the latter study reached quite the opposite conclusion. The positions of each author are briefly examined below, and in the forthcoming chapters their ideas are contrasted to the actual events which occurred. The Triantis book, because of its coverage, is more extensive where important issues are concerned and is therefore particularly useful as a comparative source.

Costis's study is concerned primarily with the potential stimulus to underutilized productive resources that would arise out of the association agreement. The productive methods characterizing the Greek economy prevented production potentials from being met; and Costis saw ultimate EEC membership as the deus ex machina to overcome this difficulty. (vii)

From an agricultural standpoint the agreement provides an almost one-sided victory for Greece. "Liberal quotas" as Costis refers to them were granted along with immediate tariff reductions. Unfortunately he assumes that the common agricultural policy will automatically apply in full to Greece and this colors his interpretation of the future. In addition, he assumes that the government will somehow miraculously overcome all the inherent difficulties which have persisted for

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<sup>24</sup>Ibid.

generations in the agricultural sector including the growing of non-marketable crops, farm fragmentation, lack of advanced technology and mechanical innovations, as well as poor organizational structure, etc. . In other words he believes that the stimulus given by increased agricultural exports to the EEC and the possibility of additional agricultural export earnings will be sufficient in and of themselves to spur changes of a most revolutionary sort in the Greek nation. (217-222)

Growing benefits also will appear in the tourist sector as a consequence of EEC association, Costis argues. However, again, this connection is not fully explained. The implication is that better transportation linkages would exist; however, extensive investment in roads, communication facilities, airports, hotels, etc., is viewed as necessary for this benefit to be realized but no reference to the source of funds for these purposes is mentioned. Again the implication is (or seems to be) that the Community nations or the EIB will rush to get in on the spoils! (222-224)

Industrially, Costis, says the impact of the EEC association on Greek firms rests on the type of industry involved. Larger difficulties are faced by industries accustomed to a highly protected market. Since many Greek industrial enterprises have traditionally used tariffs as a means of avoiding modernization, consolidation and the introduction of economies of scale,<sup>25</sup> large scale operations often were thwarted by protectionist policies. A significant inflow of capital is

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<sup>25</sup>Production costs appear to be comparable in the two areas from the statistical information given in the text of Costis's paper.

anticipated from the Community nations to help improve the industrial structure,<sup>26</sup> and this plus the fear of potential competition from the EEC nations is supposed to miraculously force businesses to "modernize or perish". (224-228) Industries faced with the likely damage by the Athens Treaty include textiles, basic metals, chemicals, and engine and motor production industries. Those benefitting include tobacco processing, business materials, manufacturing industry and foodstuffs processing. Most others have little to gain or lose from potential EEC membership. It is interesting to note that despite a quite enthusiastic outlook, he describes but does not acknowledge, a rather dismal future for exports of manufactured goods--an area which Triantis and others view as a key consideration of potential gain. (228)

Triantis's study is more orderly and although completed at an earlier date is still the more relevant. He indicates throughout that the success or failure of the Athens Treaty must be measured for Greece in terms of its effect on the balance of trade and payments and on the international movement of capital and labor.

Triantis has doubts about the realization of gains in his country because the greatest portion of the readjustment in resource allocation must be made by Greece. This arises in part because it is the weaker party and in part because it must confine the period of adjustment to twenty-two years. In addition he believes that any resulting gains probably could have been negotiated on an individual basis with the Community. (70)

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<sup>26</sup>Triantis has the good sense to acknowledge the foolishness of this type of assumption.

His pessimistic attitude focuses on the poor potential of the Greek nation due to its poor soil and subsoil, the small size of its economy and its unfavorable geographical location. It should be noted that Triantis more than likely anticipated a dismal future for Greece even without the burden of an additional millstone (his view of the Athens Treaty) around its neck. (105)

Net benefits from expanded agricultural exports are limited (1) by the low price and income elasticity for these products, and (2) by the relative cost to third countries. Furthermore since the Community bargains for its members, and the needs and difficulties faced by the Greek economy often vary radically from those of the member nations, its interests may fail to get sufficient support. Consequently, in the agricultural sector he fears dilution of the agricultural gains as additional associates are added to the Community and a possibility of continued concentration in agricultural production in the Greek economy--committing the Greek balance of payments to the vagaries of nature and very limited control over potential deficits. (85-87)

The future for manufacturing interests is even bleaker. Greek industries are in many cases much more highly protected than those of more advanced economies. This factor far outweighs any advantages such as selling in a larger market (and the resulting ability to employ specialization and economies of scale to stimulate greater efficiency.)<sup>27</sup>

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<sup>27</sup>Again it is stressed that large-scale operations and high productivity operations are not automatically a consequence of the widening of the market. In fact, a shortage of productive factors and the inability to provide economies of linkage and scale may prevent an industry from undertaking a desired expansion.

The most crucial mistake Greece made, as Triantis sees it, is the attempt to become competitive within the Community structure in a limited period of time. Industries are different and their development rates are varied; despite this the association agreement provides no flexibility and selectivity for different industrial enterprises. This he fears will knock many valid infant industries from ever achieving their full potential and the necessary economies of linkage and scale. (87-89)

Triantis indicates that Greece's bilateral trading agreements (and therefore trade with Eastern Europe) are heavily jeopardized because of limitations in the Athens Treaty.<sup>28</sup> Triantis consequently decries the likelihood of greater dependence of Greek foreign trade on a smaller world area. (78-79) This, plus his fear of a greater relative importance for trade in an already trade reliant economy, is the most serious deficiency in the agreement and the one which will contribute to its fatality, in his opinion.

The dismal future Greece faces in the Triantis study and the bright one in the Costis treatise is tempered somewhat, given the hindsight we enjoy today. In the remainder of the text we explore the actual events which occurred in the last eight or nine years. Consideration must be given to the growth rate of Greek-EEC trade during the pre-and post-association periods compared to the similar developments in non-associated areas. If the Athens Treaty was beneficial to Greece,

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<sup>28</sup>The Treaty does limit the amount duties can be decreased to these areas and also the amount of a product that can be imported from them. See Chapter II below for details.

total trade between it and the Community must have grown more rapidly in the post-association period (under ceteris paribus conditions). In addition, the impact that domestic policy had in Greece, especially as it relates to its economic expansion, is of interest. If Triantis's bleak picture holds, this as well as the Athens Treaty would be a relatively useless tool in Greece. As the study we are about to begin shows, his pessimism is not entirely warranted.

## CHAPTER II: GREECE, THE EEC AND THE ATHENS ACCORD

Greece had tried (unsuccessfully) to negotiate with the European Free Trade Association in the late 1950s for membership. Once normalcy was established after the Greek Civil War, the government realized that Greece could not survive and prosper unless it joined into the mainstream of the prosperous economic climate of Western Europe. Because the EEC nations were technically removed from the Greek economy, government officials requested and ultimately received associate membership in the EEC. The conditions of membership necessary to this evolution are stated in the Athens Accord. The influence of this Accord on Greek economic expansion cannot be understood unless we first establish the particular obligations that Greece agreed to adhere to in order to fulfil its membership requirements. Therefore, this chapter presents the details of the 1961 Athens Treaty. Once this is completed we can begin our study and analysis of the Greek economy.

The EEC gave impetus to the idea that a broad economic space was vital to survival under contemporary technological and economic conditions. Greece viewed a lack of large-scale enterprises as a serious impediment to its growth process. Consequently, expanding the economic market was viewed as a decisive factor and an opportune means for promoting such ventures, and through these ventures, economic expansion. To these ends, on July 9, 1961, an agreement of association



was signed between Greece and the European Economic Community to become effective November 1, 1962. By Article 238 of the Treaty of Rome the Community was authorized, subject to unanimous decision in the Council of Ministers, to draw up such agreements without regard to geographical limitations. The association was to incorporate "reciprocal rights and obligations, joint actions and special procedures," i.e., it was to provide mutual obligations and benefits to the signatories.

It took over eighteen months for the representatives of Greece and the Commission, acting for the Community at large, to develop the Athens Accord. Lengthy delays occurred partly because the Greek negotiators were attempting to derive the maximum in benefits for their nation, partly because of the difficulty in negotiating agreement on many Greek agricultural items competitive with Community commodities (particularly Italian products), and partly because it was the first association agreement to be devised.

#### ATHENS ACCORD OBJECTIVES

The Accord<sup>1</sup> has a long-range objective of full participatory membership in the EEC. Movement toward this objective is facilitated by the progressive institution of a customs union, a phase requiring a twelve year transition period. Ultimately full economic union will be achieved by harmonizing the economic policies of the Greek nation

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<sup>1</sup>The full text of the association agreement translated into English may be found in a G.A.T.T. publication European Economic Community, Association of Greece (L/1601/Add.1, December 7, 1961) or in book form in Agreement of Association between Greece and the European Economic Community (Athens: Greek Industrial Development Corporation, 1963). All references in this paper are to the latter document.

to those of the EEC. Earlier membership in the Community is undesirable to both parties because the original Six are more technologically advanced and the rules and regulations consistent with the Rome Treaty are restrictive towards developing nations, perhaps reflecting a fear that regional growth-oriented policy could be hampered by such associations.<sup>2</sup> Furthermore, the association is to serve as an instrument of economic expansion. The Preamble to the Athens Accord stated among other things that this agreement was:

Decided to ensure the steady improvement of living conditions in Greece and in the European Economic Community by speeding up economic advance and by a harmonious expansion of trade and likewise to reduce the gap between the economy of Greece and that of the member states of the Community.

Further evidence of this intent appears in the statements made by both Greek and Community leaders during the ceremonies to celebrate the signing of the Accord. P. Kanellopoulos, the Deputy Prime Minister of Greece, expresses his nations' feelings as follows:

The Agreement we are signing constitutes the basis of the economic union of Greece with your six countries which are economically, socially and scientifically in the van of human progress. The Hellenes . . . know that they have a great effort before them to raise themselves as quickly as possible to that level of economic progress without which the Agreement signed today will be as valueless to themselves as to the peoples who have done them the

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<sup>2</sup>John S. Pasmazoglu, Deputy Governor of the Bank of Greece in 1962 discussed the procedures to be followed concerning this idea in an article entitled "The Meaning of the Athens Agreement," EEC Bulletin, V, No. 9/10 (1962), pp. 7-13. He states:

"Thus we are obliged, if our country is to be integrated at all with the Community, to relax some of the rules of the Treaty of Rome . . . Decisions taken by the Six in accordance with the procedural rules of the Treaty of Rome may only be extended to Greece if the Greek government, better placed than anyone else to appreciate the special position of the Greek economy and the country's vital needs, is satisfied that they are sufficiently tailored to suit its requirements."

honour of deciding to associate with them . . . I believe . . . today's Agreement will make a special contribution to this work, serving as a guide and a source of inspiration.<sup>3</sup>

Ludwig Erhard, the then President of the EEC Council of Ministers, presents the EEC's position in similar fashion:

The Community sees in the great efforts Greece has already made to improve its economic situation every promise of its determination to continue, indeed to accelerate its economic and social progress. The Community firmly believes that the Association will both facilitate these efforts and make them more effective, and that Greece will be able--thanks to the contagious desire for progress which is one of the most important elements in our Community--to shorten appreciably the time that the process would otherwise need to reduce the gap between its present economic level and that of the more favoured countries.<sup>4</sup>

The Rome Treaty sets the format of the agreement itself. Treaty articles deal with the free movement of goods and services (excluding those products covered by the ECSC Treaty),<sup>5</sup> the free movement of factors, agricultural commodities and the common agricultural policy, harmonization and coordination policies for transportation, competition, fiscal and balance of payments policies. In addition, Article 72 states: "When the operation of the Association Agreement makes it possible to envisage the integral acceptance by Greece of the obligations under the Treaty establishing the European Economic Community, the Contracting Parties shall consider the possibility of Greece acceding to the Community."

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<sup>3</sup>EEC Bulletin, IV, No. 7/8 (1961), pp. 28-29.

<sup>4</sup>Ibid., p. 30.

<sup>5</sup>Article 69, Athens Treaty. Unless indicated otherwise, all Articles and Protocols mentioned are those of the Athens Treaty.

## FREE MOVEMENT OF GOODS (ARTICLES 6-12)

Customs duties or equivalent charges on Greek exports to the EEC members were reduced to the level in effect within the Community when the association agreement was signed. In addition, any further reductions or modifications in customs duties between EEC countries were automatically applied to Greece. Quantitative restrictions and other like measures were similarly modified. (Protocol 6)

On most goods not manufactured in Greece or of a type imported from the Community nations, a twelve year transition period ending November 1, 1974 was provided during which customs duties will be eliminated. There was a ten percent reduction in duties when the agreement was signed and every eighteen months thereafter until November 1, 1971 at which time twelve months would elapse between each of the last three 10 per cent cuts. (Article 14) At that time a customs union will be established subject to the exceptions specified in the agreement. (Article 6)

For industrial goods manufactured in Greece and competing with Community commodities, i.e., items listed in Annex I of the Accord, the transition period covers twenty-two years and will end November 1, 1984. Approximately one-third of the commodities imported into Greece from the EEC fall in this category. For goods in this classification, a five per cent reduction occurred when they signed the agreement, followed by additional reductions of five per cent at specified intervals of thirty months during the next seven and one-half years. Thereafter (from May 1, 1970), reductions will occur at a rate of eight per cent every 18 months until November 1, 1981, when the rates

will be 77 per cent below initial levels. Each year thereafter until the end of the transition period, rates will fall an additional 8 per cent. (Article 15)

In order to protect the future development of industries considered essential to Greek economic expansion and "for which a protracted transition period seems necessary," levying new or higher import duties or even the reimposition of an old duty was allowed in the first twelve years of the agreement. Action under this provision:

1. defined appropriate goods to include goods amounting to no more than 10 per cent of total Greek imports from Community members during 1958, and
  2. was limited to a maximum increase in levy of 25 per cent ad valorem on appropriate imports from the Community, and
  3. must be rescinded no later than five years after imposition. Once the extra tariffs were removed the original tariff would begin a twelve year transition period.
- (Article 18)

This provision was intended to coerce "infant industries" to become competitive in world and Community markets within a reasonable period of time.

#### THE COMMON EXTERNAL TARIFF (ARTICLE 20)

A common external tariff (CXT) will be gradually adopted; a three step adjustment for the twelve year transition type of good and a four step adjustment for goods included in Annex I was described. The initial alignment occurred November 1, 1965, when all twelve year transition goods subject to an import duty differing from the CXT rates by no more than 15 per cent in either direction were equated to the

CXT rate in existence in the Community. Where the difference was more than 15 per cent, Greek import duties were altered by 30 per cent. For Annex I articles the first adjustment of 20 per cent occurred in May 1970. Furthermore, to protect certain items important to Greek foreign exchange earnings (mostly agricultural commodities) the Community Members agreed not to alter the CXT in the first twelve years unless Greece first gave approval.

#### BILATERAL AGREEMENTS (ARTICLE 21, PROTOCOL 8)

During the transition period Greece was free to adjust trade policies with non-members of the EEC. However, trade adjustments between Greece and third countries linked by bilateral trading arrangements received additional attention. If the Council of Association agreed that the association agreement substantially affected the imports of certain articles from these bilateral trading areas, Greece could reduce import duties provided that the duty never was less than that applied to Community products. Furthermore, the annual value of items in the above category could not exceed (1) "ten per cent of the total value of Greek imports from third countries in the past year," nor (2) "one-third of the total Greek imports in the particular product in the last year." (Protocol 8) These restrictions applied in the first twelve years of the association and are subject to renewal or modification at that time through consultation with the Council of Association.

QUOTAS AND OTHER NON-TARIFF BARRIERS (ARTICLES 22-31, PROTOCOL 11)<sup>6</sup>

Greece agreed to eliminate quotas and other non-tariff barriers according to type. All quantitative restrictions will be removed by 1984, although under specified conditions quotas can be maintained or reimposed.<sup>7</sup> In general, during the first three years of the agreement, Greece and the EEC must allow at least as much to enter their areas as past agreements allowed or an amount equal to that actually imported during the first year of the agreement. Thereafter quotas are increased according to a set formula. (Articles 25, 26)

Any measures equivalent to quotas will be progressively eased and eliminated at the end of twelve years. Preliminary deposits levied on imports of certain goods and import licensing come under this category. The former will be limited to an amount no greater than 140 per cent of the value of the good for customs purposes at the date of signing the Treaty and will be progressively abolished in the same manner specified for customs duties in Articles 14 and 15.<sup>8</sup>

Export quotas are prohibited except "to the extent necessary to encourage the development of certain activities of the Greek economy or to cope with a prospective shortage of basic food products." Even in these cases a limited amount must be made available for intra-EEC trade. (Article 28)

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<sup>6</sup>For more on quotas see Chapter IV.

<sup>7</sup>One exception is that 20 per cent of the value of 1958 trade between the Community and Greece can be subject to quotas until November 1972. Other exceptions are found in Articles 17, 23, and 53.

<sup>8</sup>See Chapter II above. Prior to 1962, deposit requirements often ran 10 to 50 per cent higher than the 140 per cent figure.

## AGRICULTURE AND THE COMMON AGRICULTURAL POLICY (ARTICLES 32-43)

Agriculture is dealt with quite extensively within the association agreement since the bulk of exports to the EEC from Greece and most foreign exchange earnings from commodity exports come from this sector of the economy. Ultimately Greek agricultural policies will be harmonized with those of the Community, that is, they will receive treatment identical to the EEC's agricultural goods.

All restrictions to trade in agricultural commodities will be eliminated by the end of the twenty-two year transition period. (Article 33) Full consultation is provided Greece through the Council of Association concerning the Common Agricultural Policy and once the essential provisions are established for a particular product, Greece is free to accept or reject the conditions. If it accepts, the Association Council is to work out any necessary details. If it rejects, then the most-favored-nation clause applies until 1984. (Article 36) This guarantees maintenance of vested Greek interests.

Goods of particular interest to Greek farmers will be handled by special procedures. When Annex III<sup>9</sup> items are encountered, the benefits already established between the Six are automatically extended to Greek exports. Greek duties on Annex III items must be abolished and they must come under the CXT by November 1974. (Article 37) All other articles produced in Greece, unless subject to special provisions, must adapt to the CXT at the end of the twenty-two year period. Most

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<sup>9</sup>Annex III items are primarily agricultural products such as all fruits and vegetables and products derived from these items, nuts and most herbs and spices.



of these latter items are listed in Protocol 13 and include items often imported from the EEC such as meat, fish, rice and dairy products, edible fats and oils and solid sugars. Greece is also encouraged to expand imports of these goods "with a view to achieving a harmonious development of agricultural trade."

The Community maintains at all times the right to protect established Community interests and to prevent disruptions in the common market. Safeguard clauses are provided, usually in the form of quantity ceilings on goods of particular interest to EEC members.

Preferential action on the implementation of a Community CXT is provided Greece under Protocol 19 for tobacco, raisins, olives, colophony and turpentine essence. In effect, Greece must receive notification and express agreement before any modifications of the CXT in excess of 20 per cent above or below ad valorem rates (or for tobacco, any change in excess of 10 per cent of the specific duties) in force October 1960 could become effective. Further, any tobacco imports from third countries to the Community in excess of 22,000 tons must be cleared through the Greek-Association Council.

Under the so-called "preferential quota arrangements" established for agricultural commodities competing with Community products, Greek tariff reductions can take place up to the limits already applicable in the Community; however, quota ceilings limited allowable imports. These ceilings eventually allowed larger quantities of Greek exports to be admitted to the Common Market. In the case of items competitive with Italian and French products, the quotas were very modest and were raised more slowly.

For tobacco and tobacco refuse, customs duties were to be removed by December 31, 1967 and a CXT established. In Italy and France, where state tobacco marketing monopolies exist, special regulations existed. France was to increase imports during the first years of the agreement by 10 per cent of its average imports of tobacco from Greece in the period 1957-59. Italy was to increase its purchases by not less than 60 per cent of its imports of oriental-type tobacco or by an amount at least equal to \$2.8 million. In the future Greece was guaranteed exports to the EEC of an amount equivalent to at least that which it already marketed plus appropriate increases. These increases were to be defined by the Association Council. (Protocol 15, 16)

For wine, quotas and tariff quotas will exist for all countries except France and Italy. These two areas need accept a quota arrangement only with the establishment of the CAP. Greece, however, is guaranteed conditions at least as good as those received by nations subject to the most-favored-nations clause. (Protocol 14) Raisin duties in force January 1, 1957, were cut 50 per cent when the Athens Accord was signed. In 1968 they were to come under a common external tariff. (Protocol 17)

For citrus fruits, grapes intended for direct consumption, and peaches, the following limits on exports from Greece to the EEC were established: citrus fruit, 22,000 tons; grapes intended for direct consumption, 15,000 tons; and peaches, 40,000 tons. If these quotas presented difficulties in the economies of the Six, necessary action would be undertaken. The quotas increased over time. (Protocol 18)

## FREE MOVEMENT OF WORKERS, CAPITAL AND ENTERPRISE (ARTICLES 44-49)

The association agreement includes the standard provision allowing for free movement of workers to be developed between the two parties. This will occur on or before the end of the twelve year transition period. (Article 44) In addition, because of the significant amount of untrained and/or underemployed laborers in Greece, efforts will be encouraged in both the Community and in Greece to expand and/or introduce technical assistance programs, vocational and professional training and exchanges of young workers. (Articles 45,46)

Provisions also required the Greek government to ease capital movement restrictions and to establish the right to nationals from the EEC nations to do business and to establish businesses in Greece. This was crucial for stimulating an inflow of private capital. In addition, the government was directed to develop guarantees that discrimination based on nationality will be prohibited in contracts issued by public authorities. (Protocol 1)

In Protocol 9, the use of American assistance by Greece is discussed. Greece can ask for special dispensations if the association agreement in any way impedes or prohibits the use of resources available from the United States or its agencies. Upon notification of the Council of Association, Greece will have the option:

1. "of opening tariff quotas in accordance with Article 21, paragraph 2, of the Agreement for the importation of goods originating in the United States, bought with the help of the resources in question [i.e., tied loan or aid funds],
2. "of importing, free of duty, goods constituting gifts as specified in Part III of Public Law 480,

3. "of restricting tenders [bids] only to suppliers of products originating in the United States, when the use of the resources in question entails the importation of goods originating in the United States and where a system of inviting tenders is required under either Greek or United States law." (Protocol 9)

TRANSPORTATION (ARTICLE 50), COMPETITION (ARTICLES 31, 52-56), ECONOMIC POLICIES (ARTICLES 53-55) AND BALANCE OF PAYMENTS POLICIES (ARTICLES 59-64)

Using the joint consultation procedures available and with due regard for the unusual Greek geographical situation, the provisions of the joint transport policy adopted by the Community are extended to Greece. At the time of association both maritime and air transport were excluded from the common transport policy plans although the Community is free to include them at some future period.

Rules developed in the EEC concerning competition are extended in the same manner as transport policy, particularly where dumping practices (Article 56), monopolies for the handling of exported or imported goods (Article 31), or anti-trust rules are concerned. The two parties, however, agreed that special latitude will be granted for "state aids"<sup>10</sup> during the first transitional period (this period can be extended). Because of the wide discrepancies between the economic structure of the two areas, and the various social and economic policies peculiar to Greece, state aids "designed to promote Greek economic development shall, therefore, to the extent to which it does not affect trading conditions to a degree contrary to the joint interests of the association, be deemed compatible with the Association." (Article 52)

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<sup>10</sup>"State aids" include any use of state resources to alter competitive conditions.

Economic policies also will be harmonized through joint consultation procedures, with due reference to the economic situation and administrative measures currently existing in Greece.<sup>11</sup> Policies affecting the balance of payments will be coordinated during the first twelve years and uniform principles developed thereafter. Safeguards to Greece are provided, guaranteeing that Greek interests will be consulted should additional association agreements be signed or should new members be admitted to the Community. (Protocol 20) This would serve to guarantee settlement of any new rights or duties Greece might face as the result of such agreements.

A special Protocol was included to provide financial assistance to Greece. A total of \$125 million was to be made available for loans from the European Investment Bank (EIB) during the first five years of the association. The funds could be used for any purpose in accord with the rules of the Bank itself. They would be repaid within twenty-five years. In the case of projects such as those "yielding widespread, indirect or delayed economic results in the sectors of land improvements, road transport and energy," a per annum rebate of three per cent on interest charges was allowed. The maximum amount of money that could be used in that manner must not exceed two-thirds of the total allocation. (Protocol 19)

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<sup>11</sup>This provision is permitted through Article 92 (3a) of the Treaty of Rome. The Athens Accord directs: "Greece shall be deemed to be in the situation referred to in Paragraph (3a) of Article 92 of the Treaty establishing the Community."

## ADMINISTRATIVE MACHINERY (ARTICLES 65-71)

To insure the functioning of the agreement, a Council of Association composed of members from the EEC Council of Ministers, from the Commission and from EEC member governments and the Greek government (each side having one vote) is defined in the agreement. This Council functions as the decision-making authority and recommends any necessary measures or committees required to carry out its tasks or necessary to "ensure the continual cooperation essential for the proper functioning of the Agreement." (Article 66) The Committees established by the Council of Association include an Association Committee, whose task is to facilitate day-to-day routine operations of the agreement,<sup>12</sup> and a Parliamentary Association Committee. This latter committee debates the issues and suggests solutions to problems which arise. It is composed of fourteen members from the Greek Parliament and fourteen from the European Parliament.<sup>13</sup>

The basic provisions discussed in this chapter are expected to result in a process whereby coordination and harmonization of the economies of the Six and Greece can take place. Article 72, referred to above, deals with this prospect. The agreement of association signed in Athens on July 9, 1961, involves more than economic association. Most Greek political leaders view it also as a way of establishing a closer link with those who favor a United Europe.<sup>14</sup>

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<sup>12</sup>Werner Feld, The European Common Market and the World (Englewood Cliffs, New Jersey: Prentice-Hall, 1967), p. 64.

<sup>13</sup>EEC Bulletin, VI, No. 6 (June 1963), p. 15.

<sup>14</sup>John C. Pesmazoglu, op. cit., pp. 7-11.

At present the Greek-EEC relationship is frozen both politically and economically. The coup d'etat which occurred April 21, 1967 in Greece removed the processes of democratic government existing in the Greek nation and precluded operation of the Parliamentary Association Committee, the means by which consultation procedures were handled. However, the Community itself offered only minimal censure and Greece still considers itself preparing for potential membership in 1984.<sup>15</sup>

Our particular concern here goes beyond the legal and procedural matters of this agreement and into the question of whether the integration of Greece into a wider market complex will speed up its growth and raise the living standards of its people. The Greek-EEC association represents a gigantic attempt to adjust and reorganize the Greek economy along modern lines. The growing momentum of the Greek desire for progress makes required structural readjustments easier to impose. The full impact of the agreement on economic advancement is not easily discerned, however. Familiarity with the basic nature of the Greek economy is essential to any assessment. Therefore, attention now turns to the current state of the Greek economy--at first in general terms and later in Part II in more extensive detail.

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<sup>15</sup>International Monetary Fund, International Financial News Survey, XXII, No. 45 (November 13, 1970), p. 372.

### CHAPTER III: AN OVERVIEW OF THE GREEK ECONOMY

Greece might be considered by some to be in the "take-off" stage of economic development. Despite many characteristics it shares with more advanced nations,<sup>1</sup> a number of factors are sufficiently below par as to cause concern. Among these are a scarcity of skilled and middle-level personnel; wide regional differences; inefficient agricultural practices; primitive capital markets and an extensive import-export imbalance. Many of these aspects are explored in detail in the Second Part of this study. Yet many other pieces of background material are beneficial if the reader is to gain a panoramic view of the detailed material appearing in these later chapters. To set the stage for this deeper probe into the process and issues of Greek economic development, an introduction to the Greek nation and its economy is presented below. Major emphasis is given to areas not directly related to agricultural, industrial and balance of payments considerations, or facts which are useful to keep in mind in the remainder of the study.

#### LOCATION AND CLIMATE

Greece, a nation of diverse climate and terrain, occupies the southern end of the Balkan Peninsula. Albania, Yugoslavia, Bulgaria and Turkey are its land neighbors to the north while the rest of Greece

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<sup>1</sup>Greece compares favorably to advanced Western nations in terms of population growth, medical care and housing facilities, literacy, price stability and GNP growth rates.



is surrounded by water--the Aegean Sea on the east, the Ionian Sea on the west and the Mediterranean Sea to the south. Of its 50,944 square mile area (an area roughly equivalent to that of Alabama), over 17 per cent is made up of islands, roughly 30 per cent is arable--and this much only through extensive land reclamation and irrigation projects--and all but 20 per cent is covered by mountains, lakes and rivers. Despite the limited availability of arable land, and the very poor quality of the soil, the economy has traditionally been agricultural, with a wide variety of crops grown by virtue of a climate ranging from temperate in the north to semi-tropical in the south. Athens is the capital city and the major urban center. Although the 1961 census indicates an urban population of 43 per cent for Greece most of the people live in small villages and towns. Less than 1.5 million of the 8.5 million inhabitants live in the ten largest urban areas, i.e., in towns with more than 24,000 population.<sup>2</sup>

#### GNP BREAKDOWN

Since 1962, per capita gross national product (in constant prices) more than doubled, going from \$407 in that year to \$952 in 1970. In 1962, roughly 49 per cent of the labor force found employment in the agricultural sector, although their contribution to gross domestic product (GDP) was only 25 per cent of the total. The service industry

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<sup>2</sup>The National Statistical Service of Greece in their 1962 Statistical Yearbook (p. 31) report a 43.8 per cent rural population, a 12.9 per cent semi-urban and a 43 per cent urban population for the nation. The four largest urban areas and their population are Athens, 627,000; Thessaloniki, 250,920; Piraeus, 183,877; and Patras, 95,362.

accounted for slightly more than 30 per cent of the employment, but for over 50 per cent of the GDP, while mining and manufacturing employed 15 per cent and construction 6 per cent. These two areas contributed 18 per cent and 8.5 per cent respectively to GDP. Despite numerous changes in the types of goods produced in the economy, the structure of the labor force held steady since 1962, with little change in the contributions of each sector to GDP. (Table 3-1) In 1969, of the 3.9 million labor force, 47.8 per cent were agricultural workers, 15 per cent were employed in mining and manufacturing enterprises, 6 per cent in construction and 31 per cent in services.

During the period 1960-69, the average rate of growth in gross national product was 7.4 per cent, although in the last three years a slight recession lowered the average to only 6.6 per cent. By 1969, the economy was fully recovered and gross national product increased at a rate of slightly over 8 per cent.<sup>3</sup> (Table 3-2) This trend continued into 1971, giving Greece one of the top four rates of growth in the entire OECD region for the last decade.<sup>4</sup>

Throughout the decade of the sixties, agricultural output grew at a much slower pace than GDP, averaging only 2.9 per cent per annum. In 1967, the highest rate of growth was recorded (4.5 per cent), but in the next two years it fell to a disappointing 2.1 per cent per year

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<sup>3</sup>The New York Times, April 27, 1971.

<sup>4</sup>Greece was the third fastest area of economic growth during the period 1950-63, averaging a 6.5 per cent yearly increase in GNP. It followed Germany at 7.5 per cent and Italy at 6.9 per cent according to the Bank of Greece's The Greek Economy in 1963, pp. 96-112. For the current data see Main Economic Indicators from the OECD Publications Center (June 1970), p. 138.

TABLE 3-1

GROSS DOMESTIC PRODUCT (FACTOR COST) BY SECTORS  
(billion dracham and per cent of total)

	1960	1963	1965	1967	1968	1969
GDP: Factor Cost	92.46	121.38	151.67	178.34	189.50	209.85
Agriculture, forestry and fishing	22.85	31.47	38.45	42.45	39.83	42.67
Mining & quarrying	1.05	1.20	1.71	2.05	2.46	2.95
Manufacturing	15.68	19.88	24.40	28.64	30.62	34.13
Construction	6.28	7.86	10.76	12.00	15.33	17.82
Electricity, gas & water	1.35	2.05	2.64	3.25	3.69	4.27
Transportation & communications	6.43	8.82	10.79	13.10	14.15	16.51
Other services	38.81	50.09	62.93	76.85	83.42	91.50
GDP: Factor Cost	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Agriculture, forestry and fishing	24.7	25.9	25.3	23.8	21.0	20.3
Mining & quarrying	1.1	0.9	1.1	1.1	1.2	1.4
Manufacturing	16.9	16.3	16.0	16.0	16.1	16.2
Construction	6.7	6.4	7.0	6.7	8.0	8.4
Electricity, gas & water	1.4	1.6	1.7	1.8	1.9	2.0
Transportation & communications	6.9	7.2	7.1	7.3	7.4	7.8
Other services	41.9	41.2	41.4	43.0	44.0	43.6

Source: OECD Economic Survey of Greece, 1971.

TABLE 3-2  
GROSS NATIONAL PRODUCT AT MARKET AND CONSTANT PRICES  
(million drachma)

Year	Gross National Product (Current Prices)	Gross National Product (1963 Prices)
1958	94,152	104,420
1959	97,835	108,302
1960	105,373	112,455
1961	119,742	125,340
1962	127,433	130,146
1963	140,963	140,963
1964	157,679	153,635
1965	177,354	165,522
1966	197,353	178,767
1967	213,386	188,615
1968	226,600	200,100
1969	252,200	216,000
1970	272,600	233,500

Source: OECD National Accounts, 1958-67 and Economic Indicators  
(June, 1971), pp. 156-57.

average increase. This very poor showing agriculturally, coupled with a rapidly advancing industrial sector led the latter sector to account for a larger share of GDP than did agriculture by the mid-1960's.<sup>5</sup>

Despite its poor showing, the Greek agricultural sector has contributed substantially to the economy by helping to earn the necessary foreign exchange to purchase capital goods for other sectors of the economy. The desire of the government to improve the living standard of agricultural workers is evident in the plans which guide the economy and the extensive subsidy programs in effect throughout the last decade. The intent is for agricultural output to increase at roughly two-thirds the rate in the rest of the economy, i.e., at about 4.5 per cent per year--a figure well above the actual one.

Industrial production as early as 1951 included some 86,674 industrial craft units employing 319,000 people. At the last census in 1963, the enterprises (mostly small, privately controlled and/or family owned operations) numbered 122,332 and employment was up to 471,564.<sup>6</sup> The government is encouraging an expansion of the industrial sector of the economy; however, Greece's traditional role as an exporter of primary products is employed whenever and wherever possible to help finance this expansion.

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<sup>5</sup>Throughout the period 1958-1964, GNP increased almost 50 per cent while agricultural production increased only 28 per cent. "AID Report," Development Digest (April 1971), p. 1.

<sup>6</sup>Foreign Trade, 134, No. 5 (October 10, 1970), p. 21. Employment per industrial unit rose only 0.2 people in this period, going from 3.7 employees to 3.9 employees on the average.

## LABOR FORCE CONSIDERATIONS

Because of slow population growth and extensive emigration, Greece was spared from excess population pressures so often evident in underdeveloped areas. During the last two decades the annual growth rate of population averaged below one per cent.<sup>7</sup> The labor force, like population, was fairly constant over the last five years--running about 45 per cent of the population.<sup>8</sup> Statistics suggest an unemployment rate of less than three per cent of the labor force. However, these figures may fail to measure any disguised unemployment in the Greek economy and the extent of seasonal employment.

Although a shortage of skilled labor and a surplus of unskilled labor is professed, many outside observers feel that the labor market in Greece is not as dismal as the government views it.<sup>9</sup> Optimists see the gap between the wages of skilled and non-skilled workers as small and steady, indicating that all the excess labor is not unskilled,<sup>10</sup> although certain shortages of particular skills do arise.

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<sup>7</sup>Main Economic Indicators, op. cit., p. 139.

<sup>8</sup>From 1966 to 1969, population grew from 8,614,000 to 8,835,000, while the labor force expanded by 32,000 reaching 3,866,000 in 1969.

<sup>9</sup>OECD Economic Survey of Greece (Paris: OECD Publications Center, February 1971), pp. 11-12; and International Financial News Survey, XXIII, No. 7 (February 24, 1971), p. 50.

<sup>10</sup>OECD Economic Survey, op. cit., p. 13. Wages of unskilled laborers are set by law; other wages are determined by collective bargaining. More details about industrial wage rates are provided in Chapter V.

## Emigration

Extensive emigration from Greece helped keep population growth well within acceptable limits. (Table 3-3) During the late 1950's, emigration reached 25,000 per year, and by the mid-1960's the figure quadrupled. The number fell off considerably in 1967-68 when permanent emigration averaged 40,000 or more with temporary emigration boosting the total to 75,000. Since then, although precise figures are not available, emigration from Greece moderated. Geographically most emigration since 1962 was toward Western Europe. In the last three years alone, emigrant flows to West Germany included over 80,000 people.

Emigration traditionally was the result of underdevelopment in the Greek economy.<sup>11</sup> While some people consider emigration as the cause of the scarcity of skilled and semi-skilled workers, overall the extensive emigrations probably served the nation well. Sizeable foreign exchange earnings, by helping minimize the balance of trade deficit and supplementing the incomes of many poorer families, compensated for the possible loss of productive skill to the economy as a whole, especially since work of comparable productivity was unavailable in the Greek nation.<sup>12</sup> Indeed, if traditional economic theory is considered, any migration from Greece should serve it well. The movement of low-productivity agricultural workers may serve to increase the productivity of workers remaining in this sector and if future shortages of such

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<sup>11</sup>Xenophon Zolotas, Monetary Equilibrium and Economic Development: with Special Reference to the Experience of Greece, 1950-63 (Cambridge: Princeton University Press, 1965), p. 191.

<sup>12</sup>This assumes that the mass migrations of families does not occur; otherwise emigrant's remittances would cease.

TABLE 3-3  
EMIGRATION: TOTAL AND BY DESTINATION

Year	Emigrants	Year	Emigrants
1958	24,521	1964	105,569
1959	23,684	1965	117,167
1960	47,768	1966	86,896
1961	58,837	1967	42,730
1962	84,054	1968	50,866
1963	100,072	1969	63,742

NATION	1965	1966	1967	1968
United States	2878	12191	11778	9839
Germany (East & West)*	80569	45494	3730	20201
Australia	18551	13070	7891	9910
Canada	5543	6267	5752	4910
United Kingdom	998	1363	1230	672
Italy	1975	2573	1997	749
Africa	1754	1263	665	925

Source: Europa Yearbook 1970, p. 779      \*In 1969-70, an estimated 80,000 Greeks left their native land for Germany.



workers occurs it may help promote the enlargement and consolidation of fragmented agricultural holdings.

Moreover, emigrants often return with modern skills and techniques learned from training and job experience gained in other Western European nations, thereby eliminating some employment training costs which would otherwise burden the Greek government. While roughly one-fourth of the emigrants from Greece return home each year<sup>13</sup> together with a significant number of retired emigrants,<sup>14</sup> efforts are underway to provide additional inducements to trained workers to return home.<sup>15</sup> The success of any repatriation program rests both on the number who return and the reasons which cause their return. Needless to say, if their motivation is derived from a recession in Western Europe, then reabsorption problems will appear in the Greek economy when they return home.

### Education

Education, including the specialized training of workers and farmers, as well as the technical and professional training of managerial and administrative staff, is a crucial area of investment for the future of Greece. This is an investment that serves the entire population, in addition to providing a broader tax base in the economy.

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<sup>13</sup>Xenophon Zolotas, International Migrations and Economic Development (Athens: Bank of Greece, 1966).

<sup>14</sup>Social security payments from the United States government are forwarded to United States citizens of Greek origin who have returned to Greece. This alone is estimated to result in over \$1.5 million per year, according to the Bank of Greece.

<sup>15</sup>International Financial News Survey, op. cit., p. 51.

The educational problems Greece faces are numerous and partially reflective of its rural nature. They include the insufficient development of primary and higher education, inadequate training of technicians and middle-level support personnel, limited capital investment funds, poor teacher-pupil ratios, curricula, and intermediate educational facilities, and little preparation of the population for the rapid technological and social changes which accompany economic development.

The Greek government, realizing education's importance as a long-term investment in human resources and its usefulness to economic development, introduced substantial reforms in the early 1960's. The reforms included free education at the secondary and higher levels, extension of compulsory education to nine years, expanded teacher training, curricula reform and, most importantly, greater revenues for educational purposes.

Throughout the sixties, less than 2.5 per cent of GNP was funded for educational purposes. Spending on education must grow more rapidly for reform measures to be fully implemented. Although projections called for an investment of 3.5 per cent of GNP by the mid 1970's, this still falls well below the average spent in other OECD nations.<sup>16</sup>

The government's interest in educational advances and technical training is particularly important to the nation since vocational training was generally neglected. Programs today are being geared to promoting basic education tools as well as vocational skills to expand

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<sup>16</sup>OECD, The Mediterranean Regional Project: Greece (Paris: OECD Publications Center, 1965), p. 32.

the experience of the labor force.<sup>17</sup> By better utilizing available factors, Greece hopes to overcome its many deficiencies in other material factors of production.

#### AGGREGATE DEMAND FACTORS

Table 3-4 breaks down the use of resources or the growth of demand in the Greek economy. Since the signing of the EEC agreement, private investment increased roughly 14 per cent per year, and as much as 16.5 per cent in 1967, 1968 and 1969. Public investment averaged slightly over 8 per cent per year of GNP during the total period, jumping considerably to 12.5 per cent of GNP in the last three years.

Consumption expenditures, which almost doubled at constant prices over the last decade, declined in relative value from 76 per cent to 67.5 per cent of GNP. Government's share of expenditure increased only slightly while investment expenditure increased considerably, accounting for 28 to 29 per cent of GNP in recent years. The demand for exports grew slowly until the introduction of industrial exports generated more rapid growth. Demand for foreign goods rose much more rapidly than export demands although the rate of growth began leveling off in the late sixties.

By 1969, roughly one-third of the total investment expenditure was directed toward dwellings, another third to transportation,

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<sup>17</sup>These include short-and medium-term course offerings and in-the-field training activities provided by the government to expand the training and skill development of farm workers and owners. Most recently, a comprehensive plan for technical education and training facilities was announced, involving an initial investment of \$24 million over the next four years.

TABLE 3-4

GROSS NATIONAL PRODUCT BY MAJOR DEMAND COMPONENTS  
(billion drachma and annual percentage increase)  
(1958 prices)

	1963	1964	1965	1966	1967	1968	1969	1970
Private consumption	103.62	112.52	127.88	140.26	148.41	156.95	169.43	n.a.
Government consumption	15.06	17.65	20.48	23.26	27.83	29.23	33.25	n.a.
Gross fixed investment*	27.20	34.96	40.35	46.89	45.88	60.76	74.80	n.a.
Changes in stocks	3.40	5.94	6.57	0.64	2.41	1.37	0.10	n.a.
Exports	17.58	18.71	20.51	27.32	28.64	28.96	32.60	n.a.
less: Imports	25.76	32.23	38.84	42.24	41.86	49.49	58.00	n.a.
GNP: market prices	141.10	157.56	176.94	196.13	211.30	227.77	252.20	273.4
Private consumption	7.6%	8.8%	7.7%	5.5%	5.5%	6.1%	5.9%	7.2%**
Government consumption	3.4	7.9	7.9	5.0	10.1	3.1	9.9	5.5
Gross fixed investment*	10.1	26.5	15.4	11.2	-1.4	19.3	19.1	6.9
Changes in stocks	--	68.7	1.2	-4.0	1.0	-0.1	-0.5	0.6
Exports	9.9	5.1	10.2	30.8	5.9	2.1	11.3	11.1
Imports	14.2	12.8	23.0	--	5.8	8.3	14.9	15.6
GNP: market prices	8.3	9.0	7.6	7.3	5.4	6.6	7.8	8.0

Source: OECD Economic Survey of Greece, 1971.

\*including ships

\*\*preliminary

communication and other service industries, and the remaining third divided fairly evenly between agriculture, manufacturing and the electric and gas industries.<sup>18</sup> The most striking change in investment was in the division between private and public shares. In 1960, the private sector accounted for only 66 per cent of total investment; by 1964 its share grew 6 per cent and it stayed in the 72 per cent range since, except in 1967 when it fell to 69 per cent. Investment in services, the major user of private investment funds after residential construction and industrial expansion, is heavily concentrated in the tourist industry and related trades. Even the considerable investment already being made is insufficient to keep pace with the growth of the tourist industry. Furthermore, no slowdown in business fixed investment is anticipated in the immediate future because of the buoyancy of business profits.

The government, through tax incentives and subsidies, employment training facilities and public investment projects, can influence the pattern of effective demand in the economy. This became particularly evident during the mild recession and recovery three years ago. Prior to the recession, the government discouraged investment in dwellings by raising taxes and credit costs, but when faced with an economic downturn, it immediately rescinded these restrictions. The construction industry, an industry where employment effects are

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<sup>18</sup>By way of comparison, investment in manufacturing alone in 1967 was 18.1 per cent in Austria (includes mining); 25.4 per cent in West Germany; 22 per cent in England; 25.4 per cent in France; 28 per cent in Italy (includes mining, electric, gas and water industries); and 32 per cent in Spain (1966 figure). The respective figures for agriculture were 5.6 per cent, 5.4 per cent, 2.7 per cent, 5.1 per cent, 8.8 per cent and 10 per cent.

extensive and imports very weakly linked, was duly stimulated. Generally, however, government activities discouraged construction in favor of areas where productivity gains were higher and where the basic structural changes desired in the economy could be fostered.<sup>19</sup>

#### MONEY, PRICES AND CREDIT FACILITIES

The rapid rate of growth in the real output level in Greece since the early 1950's was aided by stable prices. From 1955 to 1963, the average annual increase in the level of prices was less than 2 per cent. In 1963, prices averaged an increase slightly over that and in the five years which followed, prices increased an average 2.5 per cent per year, the lowest rate of price increase in any OECD nation.<sup>20</sup> (Table 3-5) The cost of living has shown an upward trend since 1967, increasing by 11 per cent between then and 1970.<sup>21</sup>

The favorable rate of price increase can be explained in part by the moderateness of wage demands coupled with the relatively free labor market, direct controls over some prices,<sup>22</sup> a lack of pressure on capacity in industry and free import policies imposed in the last two

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<sup>19</sup>OECD Economic Survey, op. cit., p. 44.

<sup>20</sup>Ibid., p. 74.

<sup>21</sup>The New York Times, January 15, 1971.

<sup>22</sup>The number of products included under these controls has diminished in recent years. The government anticipates interference only where there is evidence of "planned speculation and profiteering" at the expense of the general public.

TABLE 3-5  
CONSUMER AND WHOLESALE PRICE INDEXES  
(1963 = 100)

Year	Wholesale Prices	Consumer Prices (all items)
1959	--	94.0
1960	--	95.7
1961	95.6	97.4
1962	--	97.1
1963	100.0	100.0
1964	103.1	100.8
1965	104.9	103.8
1966	108.2	109.1
1967	108.9	110.9
1968	108.9	111.3
1969	113.1	114.0
1970	117.5	117.7

Source: United Nations Statistical Yearbook and Monthly Supplements

decades.<sup>23</sup> This stability provided sounder financial backing of both public and private credits than would be likely under rising prices. Because of the significance of foreign trade in the economy, it is crucial that these moderate increases be maintained if balance of payments difficulties are to be dealt with more easily.

A stable national and international currency was a major objective of the Greek government. To facilitate this, Greek officials called for and got a devaluation of the drachma by 50 per cent in April of 1953,<sup>24</sup> simultaneously pursuing credit and monetary policies conducive to a real expansion in economic output. These policies sought to encourage savings and to discourage the hoarding of gold and other assets, to encourage private initiative in speculative business ventures and to help prevent balance of payments deficits from being disastrous to the economy. These efforts successfully induced the general public and private institutions to divert funds into public banking facilities. Between 1960 and 1969, commercial bank savings deposits grew from 10.8 billion drachma to 56.1 billion while time deposits jumped from 1.3 billion to 12.3 billion drachma. (Table 3-6) Gross savings as a percentage of GNP expanded to over 20 per cent in the last decade.

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<sup>23</sup>Because roughly one quarter of Greek GDP is associated with imports, the higher rates of inflation in Western Europe and the United States are expected to have an undesirable influence on domestic prices. This type of external influence probably encouraged the more rapid expansion of prices in the last two years.

<sup>24</sup>At that time par value was fixed at 30 drachma to the dollar and there has been no call for revision since. At the time the government hoped that this would help secure a market for Greek products as well as encourage an inflow of foreign capital.



TABLE 3-6  
MONEY SUPPLY AND SAVINGS  
(million drachma, end of period)

	1963	1964	1965	1966	1967	1968	1969	1970*
MONEY	23615	28181	32335	35859	43417	45214	48972	49546
Currency in circulation	16802	20160	23278	26099	33446	33094	35441	34764
Sight deposits	6831	8021	9057	9761	9972	12147	13531	14782
Private	4528	5224	5803	6048	6064	7446	8256	9275
Public entities	2023	2615	3022	2938	3337	4041	4615	5007
Public enterprises	263	182	232	775	571	660	661	507
QUASI-MONEY	33847	38249	41878	51319	56142	71281	87100	103834
Saving deposits	19837	22766	25320	31892	35144	46648	56014	65595
Time deposits	5380	4995	4975	5913	7010	8966	12267	15369
Private	4015	4122	4504	5701	6762	8629	11785	14862
Public entities	1365	873	471	212	248	337	482	500
Other deposits	8630	10488	11583	13514	13998	15667	18819	22877
TOTAL	57264	66430	74213	87178	99569	116552	136072	156380

Source: OECD Economic Survey of Greece, 1971.

\*Through November.

This significant increase in savings added considerably to the liquidity of the money market and limited the need to rely on foreign funds. Government saving, according to current planning proposals, will average 3.5 per cent of GDP by 1972.<sup>25</sup>

As private savings expanded, commercial banks prospered and numerous changes were made in the banking structure. The Bank of Greece--at one time practically the sole source of loan funds in the economy--gradually relinquished much of its credit-granting abilities to commercial banks. Rediscounting was introduced to strengthen the dependence of commercial banks on the central bank and to guarantee a constant source of funds. Strict controls were imposed to discourage non-productive and speculative investments and, at the same time, to encourage the use of private deposits for long-term development projects. Bank credit underwent further changes in 1963 by expanding the basis on which credit would be offered and lowering the cost of borrowing.<sup>26</sup>

Monetary policy relies primarily on selective controls to channel funds towards high priority areas such as export expansion or import substitution and away from such items as imports of consumer goods, domestic trade and building activities. Many policy measures are prompted by balance of payments considerations.<sup>27</sup>

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<sup>25</sup>OECD Economic Survey, op. cit., p. 39.

<sup>26</sup>For more details on the methods employed by the government see Wray O. Candilis, The Economy of Greece, 1944-66 (New York: F. A. Praeger, a special study, 1968), pp. 102-106.

<sup>27</sup>Recently a plan to encourage savings by Greek emigrants and seamen in Greek banks was introduced according to International Financial News Survey, February 24, 1971, pp. 50-51.

Straightforward controls and regulations, the primary type of monetary policy in the mid-1960's, are currently discouraged. A more sophisticated system of differentiated interest rates and reserve requirements replaced them. One such attempt sought to equalize bank earnings from loans by using differential interest rates. This required a schedule of sliding scale reserve requirements which varied according to the type of lending employed.<sup>28</sup>

More long-term credit became available in the last two years. However, despite financing limits, higher interest rates and higher lending costs, funds still seemed more prone to flow into the housing sector and other service trades, especially tourism, than to the industrial sector. The Hellenic Industrial Bank, a government-owned enterprise, was established to provide more sources of medium- and long-term funds. This institution, and other such agencies, help to attract foreign capital, to finance and promote reorganization, consolidation, and modernization of manufacturing plants and enterprises, and to create new concerns. In addition the development banks pursue policies to encourage stock exchange use.<sup>29</sup>

The capital market became practically inactive during the war years because of the concentration of ownership of shares during the bad times before the war, the preoccupation with economic and political instabilities and the resulting desire for "secure" investments, and

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<sup>28</sup>OECD Economic Survey, op. cit., p. 25, footnote 9.

<sup>29</sup>Candilis, op. cit., pp. 119-23, points out several government policies instituted to encourage the development of a viable stock exchange market and the use of capital shares by private companies.

the low yield available in securities compared with other opportunities.<sup>30</sup> The deficiencies in this market today are primarily from the supply side. The majority of companies included on the exchange are "family enterprises", meaning that few new stocks are offered for public subscription. Bond issues are offered primarily by the government (corporate bonds account for less than 5 per cent of such issues).

Behavioral barriers have prevented efforts to encourage stock market participation and long-term investments. Traditionally, the Greek people wished to hold highly liquid assets and to keep stock holdings private. The time required to circumvent such attitudes might be diminished somewhat by minimizing government competition in the funds' market. In addition the government must stick by its decision to discourage investments in housing--something it has been reluctant to do in the past.

#### PUBLIC FINANCE

Throughout the fifties the Greek government sought to eliminate budget deficits, develop budget surpluses, and accordingly help finance public investments. United States aid was a major source of assistance until the sixties when emphasis was placed on public borrowing, particularly from the banking system. Foreign borrowing was too expensive as a prime source of long-term funds because of the associated servicing burdens. Consequently, the government increased the attractiveness of its bond offerings to encourage greater participation by the

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<sup>30</sup>This was particularly true in the early 1960's when saving deposits paid premium rates of interest.

general public and by institutional investors.<sup>31</sup> The government recognized that borrowing was not the best means of gaining funds since it diverted money which would otherwise be available for private investment; nevertheless it continued to use Treasury Bills as the major source of deficit financing and on occasion extended the authorized ceilings for central bank lending to the government on anticipated aid and loan funds because its activities were essential at this stage of economic expansion.

The methods employed by the Greek government to raise public savings, both in the 1950's and in the late 1960's, involved limiting government expenditures and enlarging government revenues to yield a surplus in the ordinary budget. Specific areas of cutbacks in expenditure were subsidy programs and government employment. The government also anticipated expansion of its revenues through tax reforms and increased administrative efficiency in tax collection. Further savings accrued through greater restraints on ordinary budget expenditures.

The bulk of government expenditures (roughly 50 per cent of central and 40 per cent of total government) were for national defense; 18 per cent of expenditures were directed toward education, an amount equivalent to 2.4 per cent of GNP or roughly one-third of government's non-defense spending. Total non-defense expenditures accounted for 7.9 per cent of GNP and defense expenditures totalled 5.3 per cent of GNP.

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<sup>31</sup>OECD Economic Survey, op. cit., p. 24.

A significant share of government funds in the 1960's went into the agricultural sector through farm support policies and irrigation programs, and to government transportation and communication facilities.<sup>32</sup> (Table 3-7 lists the annual revenues and expenditures of the ordinary and capital budgets.) Government expenditures on real fixed investment increased significantly during 1966-69.

Most public investments are concentrated in agriculture, transportation and electric power production. Industrial investments are minimized since private investors are usually available. Housing expenditures decreased significantly in 1962 when the government withdrew from the field, allowing private enterprise to take over. Power production was a major field of emphasis throughout the last decade because it was so crucial to the desired industrial expansion. Also road and highway construction was urgently needed to help expand the tourist industry and to serve as an important adjunct to industrial development.

The tax system is weighted heavily towards indirect taxes, although reforms are underway.<sup>33</sup> Direct taxes account for roughly 10 per cent of GDP as opposed to an average of 20 per cent in other OECD nations. Extensive reliance on revenues from import taxes, which currently provide 40 per cent of indirect tax revenues, will gradually be replaced by a more progressive tax system, a more efficient collection procedure for direct taxes, and a heavier burden of tax on real estate gains and property, although no rush towards reform is anticipated.

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<sup>32</sup>Ibid., p. 21.

<sup>33</sup>Ibid., p. 39.

TABLE 3-7  
GOVERNMENT RECEIPTS AND EXPENDITURES  
(billion drachma)

	1963	1964	1965	1966	1967	1968	1969	1970*
ORDINARY BUDGET:								
Revenue	21.7	24.8	28.2	34.1	38.7	44.8	50.4	48.7
Direct taxes	3.6	4.5	4.5	5.7	6.7	8.2	9.5	9.5
Indirect taxes	14.9	17.2	20.4	24.7	28.4	32.1	36.1	35.1
Other revenue	3.1	3.2	4.8	3.7	3.6	4.5	4.8	4.1
Expenditures	20.0	24.0	28.6	32.0	38.4	42.9	47.7	45.1
Balance	1.7	0.8	-0.4	2.1	0.3	2.0	2.7	3.6
INVESTMENT BUDGET:								
Revenue	0.5	0.7	1.3	0.9	1.6	n.a.	n.a.	n.a.
Expenditures	5.1	5.4	5.4	7.1	7.2	n.a.	n.a.	n.a.
Balance	-4.5	-4.6	-4.0	-6.2	-5.6	-8.5	-10.0	-6.2
Overall Balance	-2.8	-3.8	-4.4	-4.0	-5.3	-6.5	-7.3	-6.2

Source: Monthly Statistical Bulletin, Bank of Greece.

\*Through November

Corporate tax receipts will not serve as a significant source of funds in the immediate future if the government's policies of tax incentives and relief for investment expenditures prove successful. Tax policies generally are designed to encourage savings and investment and to discourage expenditures on luxury consumer goods such as yachts, air conditioners and race horses. To encourage investment in the more remote regions of Greece, greater tax benefits are made available which vary directly with the distance of the proposed investment from the Athens-Piraeus complex. Extending the use of direct taxes through a widened tax base plus greater progressivity in the tax structure will help to increase the influence of budget policies on the pattern of economic behavior, particularly short-run demand patterns, a burden that heretofore rested primarily on monetary policy.

#### THE BALANCE OF PAYMENTS (TABLE 3-8)

A very unfavorable ratio of exports to imports exists in Greece. Figuratively it might be said that the balance of trade is Greece's Achilles' heel. In order to finance the extensive balance of trade deficit, reliance rests on earnings from shipping, emigrant's remittances, and tourism. Moreover the small size and structural make-up of Greece tie it very tightly to the foreign trade sector. The main constraint on rapid growth is its limited foreign exchange earnings.

Greece has experienced persistent trade deficits since 1948. Imports accounted for almost one-fifth of total expenditures in the economy while exports contributed only one-eighth to GNP. Since 1965, buoyed by expanding world trade, good harvests and the maturation of



TABLE 3-8

BALANCE OF PAYMENTS  
Payments and Suppliers' Credit Basis  
(million dollars)

	1965	1966	1967	1968	1969	1970
Trade Balance f.o.b./c.i.f.	-702.0	-749.2	-708.6	-783.6	-903.3	-1092.3
Exports	330.9	403.5	452.6	464.9	530.0	612.3
Imports	1032.9	1152.7	1161.2	1248.5	1433.3	1704.6
Services, net	210.1	252.3	249.7	292.1	274.1	328.7
Transportation	145.5	149.8	183.8	212.6	211.9	227.7
Foreign travel	66.1	102.9	86.1	77.9	101.6	138.4
Investment income	-9.9	-16.8	-24.5	-28.6	-33.9	-44.4
Government	-2.6	14.5	6.1	11.0	-23.0	-12.7
Transfers, net, of which:	223.5	239.7	236.5	239.5	277.7	344.7
Emigrants' remittances	206.9	235.0	232.1	239.4	277.0	243.1
Current Balance	-268.4	-257.2	-228.4	-252.0	-351.5	-411.3
Non-monetary capital, net, errors and omissions	231.7	247.4	191.4	211.7	259.3	304.5
Long-term, net	203.7	219.3	171.4	203.0	202.9	275.9
Government	25.4	69.3	10.7	14.1	18.3	1.3
Public enterprises	24.8	2.0	19.2	7.8	16.8	4.5
Technical companies	--	--	68.1	70.8	80.6	80.0
Private, other than real estate & suppliers' credits	104.7	73.2	--	--	--	73.4
Real estate investment	--	57.0	40.1	50.9	58.6	65.6
Suppliers' credit	12.8	17.8	33.3	59.4	58.6	51.1

TABLE 3-8 (cont)

	1965	1966	1967	1968	1969	1970
Non-monetary capital, net (cont)						
Short-term, errors & omissions	28.0	27.2	20.0	8.7	56.4	28.6
Current and non-monetary capital transactions	-36.7	-9.8	-31.0	-40.3	-92.2	-106.8
Monetary institutions, of which:	4.0	12.4	18.7	30.0	37.3	64.8
Foreign exchange deposits	3.2	11.2	8.2	21.3	27.2	45.3
Balance on Official Settlements	-32.7	1.7	-12.3	-10.3	-54.9	-42.0
Gold and foreign exchange reserves	-31.0	12.4	13.5	35.8	-4.9	-16.4
SDR's drawings	--	--	--	--	--	-17.8
Other, including transfers of gold <sup>a</sup>	-1.7	-10.7	-25.8	-46.1	-50.0	-8.8
Official reserves (outstanding, end of period)	235.3	247.6	261.1	296.9	292.0	275.6
Suppliers' credit (outstanding, end of period)	239.8	285.2	309.4	378.7	434.1	516.6

Source: Monthly Statistical Bulletin, Bank of Greece. Notes: <sup>a</sup>Transfers of gold from the Domestic Sovereign Fund to the Foreign Exchange Account of the Bank of Greece.

important investments in export industries, exports grew by 85 per cent while imports expanded less rapidly by 65 per cent.

The current account picture minimizes somewhat the trade deficit. Here with the help of invisible earnings, i.e., emigrant's remittances (\$330 million in 1970), tourist receipts (\$190 million in 1970), and shipping receipts (\$225 million in 1970),<sup>34</sup> the deficit is cut to roughly one-third the goods deficit. The remaining third is largely financed by inflows of private capital and government borrowing abroad.

Applications for direct foreign investment in Greece increased considerably in the last few years. There is, however, usually a significant lag between the application, its approval, and the actual flow of resources,<sup>35</sup> although the steady nature of such applications indicates a willingness to invest in Greece which was lacking throughout most of the sixties.

The basic structural deficiencies in the balance of payments make the country's foreign trade position very vulnerable. Apart from a limited export capacity in the economy, the nation exhibits a strong income elasticity of demand for imports,<sup>36</sup> forcing continued reliance

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<sup>34</sup>Transportation earnings were down in 1967-69 because of a reluctance to repatriate the earnings fearing possible currency instability after the coup and the high interest rates prevailing abroad.

<sup>35</sup>For example, a 1969 approval was given an Italian company to produce automobiles and tractors with an investment of \$110 million; but the full impact will not occur in Greece for eight years.

<sup>36</sup>It was estimated at 1.8 by the OECD during the period 1960-1966 and was expected to fall to 1.3 during 1966-1972.

on the invisible accounts plus capital inflows to finance persistent deficits.

In the immediate future there appears no simple way to decrease Greek dependence on the external sector. Exports and imports continue, therefore, to be an important stimulant and drain on the economy, necessitating increased productivity in and expansion of the import substitution and export industries. Its ties to the advanced economies of Western Europe and the competitive position of Greek agriculture and industry in these economies becomes, therefore, essential to the survival and prosperity of the Greek economy in the future.

#### PLANNING IN THE GREEK ECONOMY

Throughout the fifties no systematic or consistent framework of planning targets or strategies was evident. By 1959, the hodge-podge of economic policies pursued by the various ministries in developing public works was growing so diversified that a five year plan (1959-64) was suggested and developed by the Research Committee for the Organization of Economic Planning. This plan was so poorly devised that the economy quickly surpassed many of the prescribed goals and ran woefully behind other more crucial ones (such as expectations with regard to public investment, private investment and exports and imports).<sup>37</sup>

In 1964, the Center of Planning and Economic Research in Athens began developing a more comprehensive and digestible plan for the

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<sup>37</sup>Diomedes Psilos, "Postwar Economic Problems in Greece," in Economic Development Issues: Greece, Israel, Taiwan, Thailand (Supplementary Paper issued by the Committee on Economic Development, 1968), pp. 1-77.

period 1966-70. The plan incorporated a more scientific approach to planning techniques but was stalled by political maneuvering until the 1968-72 period.

The 1968-72 Plan seeks changes in public institutions and development of an expanded labor and management supply, along with the maximum use of private initiative in the economy. The following objectives are expressed: (1) an annual increase in GNP of 7.5 to 8.5 per cent per year; (2) continuance of monetary stability; (3) expanded competition in order to increase productivity in both agriculture and industry and to help move the economy in a concrete manner toward an adaptation of the Greek economy to conditions in the EEC; (4) improvement in the composition of investment, production and the balance of payments; (5) an expansion of job opportunities and relocation of low productivity workers; (6) a greater dispersal of economic activity through the more rational distribution of infrastructure and other public investment projects; (7) the removal of inequities to free opportunity in economic endeavors; and (8) an expansion and better balance in the agricultural and industrial sectors of the economy.

Extensive changes in agriculture, industry and the balance of payments are envisioned. Most areas of the economy have responded to the plan's goals, and many structural changes have occurred which will help diversify and strengthen Greek development efforts. The policies designed to expand exports, encourage industrial production and to provide for import substitutes are enjoying particular success.

Agricultural success is much less evident. Despite good harvests in recent years, agricultural production has stayed well below

the four to five per cent growth rate envisioned in the Plan. New farm exports have helped replace tobacco and other traditional crops as a source of foreign exchange earnings but the necessary transfer of resources from traditional crops towards meat and dairy products where domestic demand has increased considerably has failed to materialize, putting additional pressures on the balance of payments. This inability to appropriately expand the agricultural sector also minimizes the progress made in narrowing gaps in regional incomes and living standards.<sup>38</sup>

The Greek government has expressed an interest in long-range planning as well as medium-term planning. Future plans call for provision of some long-run objectives (covering, for example the years 1985-2000) to guide the medium-term planners in the crucial years ahead. Regardless of the outcome, the government seeks one major objective: to limit government action in the economy to the supply of economic and social infrastructure, leaving the major responsibility and initiative in the economic system to the private sector.

#### POLITICAL SITUATION

The free world greeted the coup d' etat in Greece in April of 1967 with great distaste seeing it as a blow to freedom and democracy. A military regime headed by George Papadopoulos replaced the constitutional monarchy, introducing severe limits on freedom of speech, press and political action. However few, if any, economic hardships were imposed on the populace and in the five years since then the people of

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<sup>38</sup>In 1968 the difference in per capita income in rural and urban areas was over \$500.

Greece have enjoyed growing prosperity and incomes. In fact, the economic boom has kept the people very content providing a friendly environment in which to implement the government's economic policies.

It is unlikely that Parliament will again sit in Greece until Papadopoulos himself declares a return to constitutional law. Since no immediate threat to his power exists,<sup>39</sup> it is unlikely that such action will be immediately forthcoming. When Greece or Papadopoulos can receive political or economic gain<sup>40</sup> from a full implementation of the 1968 Constitution, i.e., a restoration of democracy, Parliamentary government will reappear--and not before. Although by Western standards a Fascist dictator rules Greece, when compared to the typical Mideastern or Mediterranean situation, Greece represents one of the freest intellectual, economic and political climates!

#### CONCLUDING COMMENTS

The material presented in this chapter established background information from which Part II will build. The essentials gained from this chapter to free up the analysis in the study include the Greek pre-disposition toward a market-oriented economy, the stability of

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<sup>39</sup>Newsweek (April 24, 1972), p. 40, explains how Papadopoulos has minimized threats to his position and as they conclude: "Barring some dramatic, unforeseen event, which is always possible in a country whose history is studded with coups and assassinations, the Papadopoulos regime appears to be solidly entrenched."

<sup>40</sup>The EEC agreement may well exert a strong positive force for the restoration of democracy since many new details need to be worked out in the near future if Greece is to further benefit from the original commitment. The continued efforts to harmonize Greek economic policies with Community policies is evidence of Papadopoulos's interest in maintaining close EEC ties.

prices and the type of government expenditure and tax policy which prevails in Greece; basic influences on the labor force together with an expression of government policies and desires to enhance this factor of production; the size and nature of the Greek nation; the public's attitude towards the government and government economic policies; and, the formidable growth rate realized in the last decade.

Greece expresses a strong interest in expanding its economy and an almost malicious desire to adapt the old with the new. A basic patience and impatience, satisfaction and dissatisfaction, hope and resentfulness is evident toward economic progress in Greece. One consistent strain that pervades throughout the nation, however, is its infinite faith in the individual and an awareness that there are very real costs accompanying the growth process. All of this enhances and adds flavor to the use of Greece as a case study of economic development.



**PART II: DETAILS AND ANALYSIS OF  
GREEK ECONOMIC DEVELOPMENT**

## CHAPTER IV: GREEK AGRICULTURE

### INTRODUCTION

The signing of the Athens Treaty in November 1962 elicited no drastic responses from the Greek economy. The major objectives of the Greek nation were unaffected, although a more precise timetable of change was introduced. The basic goals then, as now, were (1) to establish a perpetual, self-sustaining agricultural sector by improving its use of productive resources, and (2) to minimize the basic dependence of the economy on the agricultural sector by developing a viable industrial sector. In the decade 1961-71, extensive strides were made towards completing these goals. This chapter presents the existing state of affairs in this sector and examines the influence that domestic policies and the Athens Treaty exerted on the changes in the agricultural sector in that decade.

We begin by looking at the type of agricultural arrangements which prevail, the crop patterns, technology and marketing performance and the influences government policies have had. This is followed by a look at investment needs and uses. Finally the situation in Greece is examined in light of the EEC's agricultural policy and the EEC in general.

We will find that the pessimism of Triantis's study<sup>1</sup> is generally unwarranted. The agricultural sector in this last decade has been

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<sup>1</sup>See Chapter I above.

generally dynamic, introducing new methods and new crops to replace and overcome the dependence of the economy on tobacco and grapes. Triantis's concern about Greece not being able to hold its own against EEC interests is somewhat justified, as the burley tobacco situation will indicate, but never to the degree that he anticipated, as we will see in this chapter.

#### AGRICULTURE'S ROLE IN GNP AND EMPLOYMENT STRUCTURES

Traditionally Greece was an agricultural nation--with almost fifty per cent of the labor force employed in this sector and roughly one-fourth of GNP derived therein.<sup>2</sup> Moreover, since over 75 per cent of the foreign exchange earnings from exports came from agricultural commodities, fluctuations in agricultural production presented serious problems for the economy.

By 1972, planning authorities estimate agricultural production to account for only one-fifth of the output, 45 per cent of employment activity and one-half of export earnings. From available information,<sup>3</sup> it appears that the first two estimates are already met and that agricultural earnings as a percentage of total export earnings decreased to 55.5 per cent in 1969, the last year in which precise information was available.<sup>4</sup>

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<sup>2</sup>OECD Economic Survey: Greece (Paris: OECD Publications Center, 1965), p. 12.

<sup>3</sup>OECD Economic Survey: Greece (Paris: OECD Publications Center, 1971) and The Economist, July 31, 1971.

<sup>4</sup>OECD Economic Survey: Greece (1971), p. 58.

The government's agricultural program, which is responsible for at least part of the changes in Greek agriculture, seeks to accomplish three primary ends: the full utilization of agricultural resources, an increased standard of living for farmers and farm workers, and an easy integration into the European Community's Common Agricultural Policy (CAP). The numerous policies established to implement these goals are quite diverse and include programs to improve the agricultural pricing system, to encourage investment in agricultural infrastructure and fixed capital, to expand land reform, mechanization and livestock breeding, and to intensify the educational and cultural background of the farmers.<sup>5</sup>

#### STRUCTURE OF GREEK AGRICULTURE

Agricultural development in Greece is hampered by its small size and its limited availability of suitable terrain. On the other hand, the wide-ranging climate allows production of almost any type commodity except those strictly limited to a humid tropic area. Quantitatively, 30 per cent of the Greek nation is available and suitable for crops, 40 per cent for pastures and the remainder is suitable for forests, cities, waste and infrastructure.<sup>6</sup> The terrain includes isolated, steep mountains, rolling hills and irrigated fertile plains.<sup>7</sup>

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<sup>5</sup>The Revolution of 21st April Builds a New Greece (Athens: Ministry of Coordination Public Relations Service, 1970).

<sup>6</sup>D. C. Myrick and L. A. Witucki, How Greece Developed its Agricultural Base, 1947-67, Department of Agriculture, Foreign Development and Trade Division, Foreign Agricultural Reports Series (Washington, D. C.: Government Printing Office, 1971).

<sup>7</sup>The largest plains area measures only 500 square miles.

During the last twenty-five years, cropland increased annually at a rate of only 0.8 per cent; consequently, most expansion in agricultural production resulted from land improvement projects such as irrigation and drainage,<sup>8</sup> improved seed varieties, expanded credit, increased use of machinery and fertilizers and expanded use of technological know-how. Nevertheless, the paucity of arable cropland makes Greece one of the least likely nations of the world to balance its international payments by producing the fruits of the earth.

Roughly half of the arable land is devoted to grapes, olive trees, fruits and vegetables and the other half to bread crops. The mountainous cultivable regions are used to raise sheep, cattle and forestry crops. Cotton gained considerably over the last decade in importance as irrigation facilities expanded, while the importance of tobacco declined. Wheat production intensified providing appreciably higher yields on smaller total acreage, freeing land for non-traditional items such as maize, barley and fodder crops. The latter is encouraged so that livestock production can expand. Production of sugar beets grew rapidly for the last four years, eliminating foreign exchange flows for sugar purchases. Tomatoes, alfalfa, clover, and soft fruits also flourished. Early in the decade livestock production grew very slowly, primarily because farmers remained unconvinced that the breeding and rearing of animals could be profitable; this attitude is changing.<sup>9</sup>

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<sup>8</sup>Thirty per cent of total cropland was irrigated since 1950. FAO figures show a 5.8 per cent annual increase in irrigated land area since 1950 and credits this as the major factor in increasing the productivity of cropland.

<sup>9</sup>John D. Motz, "Some Improvements in Greek Agriculture," Foreign Agriculture Reports, VIII, No. 4 (January 26, 1970), pp. 7-8.

Crop production accounted for almost 78 per cent of agricultural output in the immediate post-war period; by 1967, this fell to 70 per cent and the production of livestock began increasing.<sup>10</sup>

In terms of total quantities and crop yields, Greek agricultural performance proved satisfactory;<sup>11</sup> however, policies designed to diversify crop structure and reorient the pattern of production towards intensification of cotton, fruit, vegetable and animal products and away from tobacco, olive oil, dried fruit and wheat only recently gathered momentum. Crop restructuring was unsuccessful initially because the government failed to provide appropriate incentives; this no longer is the case.

Other important and persistent problems which plague the agricultural sector are providing sufficient economic opportunities for the excess population in agriculture and overcoming the limited land market and the resulting desire to hold land as a status symbol. The first problem relates to the need for readjustment of the crop structure, overcoming seasonal unemployment, improving the attractiveness of farming to young people, reducing the gaps in rural-urban living standards, extending mechanization, or in expanding employment in tourism, light industry and public works.

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<sup>10</sup>Between 1947 and 1967, crop output increased at an annual rate of 4.4 per cent while livestock production increased 6.6 per cent annually. For additional information see Myrick and Witucki.

<sup>11</sup>Greek product yields, although not as high as those of the United States and highly advanced Western European economies, well exceed those of other Southern European countries for most crop products according to the FAO Production Yearbook figures.

Greece, like most other developing countries, spontaneously developed a rural-urban migration well in excess of available opportunities. Extensive emigration also occurred, further intensifying the drain of rural agricultural workers in the last two decades.<sup>12</sup> Labor shortages were unimportant in Greece until the mid-sixties when seasonal ones developed.<sup>13</sup> The reluctance of some farmers to restructure crop patterns results from these shortages since they are hesitant to switch to labor intensive crops such as cotton, fruit, or vegetables where labor needs may run six times as high as those of cereals or other low labor input commodities. While more extensive mechanization helps alleviate the farmer's initial fears, as it did in cotton cultivation in the last five years, the annual pattern of labor demand itself also could be smoothed by introducing mixed farming (crop and animal production), and/or by diversifying crop patterns.

Overcoming the limited land market, the second problem mentioned makes efforts at consolidation and enlargement of land holdings in the interest of efficiency more difficult. The last land reform program, one which expropriated large estates and distributed them to landless farmers, was a pre-war one. Today the rule is very small units<sup>14</sup> of

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<sup>12</sup>Over 60 per cent of emigrants in 1962-66 gave their occupation as "farmer" or "farm laborer". The Greeks exhibit a readiness to respond to better opportunities which is seldom found in poorer nations.

<sup>13</sup>This was anticipated in the only extensive empirical study done on Greek labor supplies. The study found very little under-employment in the agricultural sector, and therefore found little surplus in the labor markets. See Adam Pepelasis and P. Yotopoulos, Surplus Labor in Greek Agriculture, 1939-1960 (Athens: Center for Economic Research).

<sup>14</sup>Over 85 per cent of the holdings are less than 5 ha. in size. The Lorenz curve of land distribution tends to be closer to the diagonal in Greece than in any other Southern European country.

non-contiguous plots or parcels<sup>15</sup> which inhibit intensive cultivation of land, limit usage of machinery and lead to low gross revenues because of high production costs.<sup>16</sup> Few voluntary sales of land occur because of the status associated with land ownership. Some increase in the number of urban dwellers willing to rent land to farmers occurs, but generally leasing as a method of expansion seldom is used, despite the good record of such policies in other parts of Europe.

This excess fragmentation is the most important obstacle to the technical and economic development of Greek agriculture.<sup>17</sup> It compounds the difficulties in using modern methods and inhibits the use of mechanization, spraying, fertilizers, irrigation, etc. . It discourages certain crops and makes livestock rearing untenable because of small, unfenced plots. During the sixties compulsory consolidation was introduced to facilitate irrigation schemes. The cost of consolidation, all of which is covered by the government provides an immediate increase in annual earnings sufficient to return the initial expense.<sup>18</sup> However, what is done in one generation is easily undone in the next unless the traditional inheritance and dowry customs are outlawed,

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<sup>15</sup>Inheritance and dowry customs perpetuate this problem.

<sup>16</sup>Gerard Viatte, "Agricultural Development in Southern Europe," OECD Agricultural Review, No. 3 (1969), p. 72.

<sup>17</sup>A simple land redistribution consolidation scheme will yield a 20 to 30 per cent increase in output per hectare, even without the additional benefit of greater mechanization.

<sup>18</sup>Capital and Finance in Agriculture, Volume II, OECD Agricultural Policy Reports (Paris: OECD Publications Center, 1970), p. 73.



since usually in most cases<sup>19</sup> nothing prevents new fragmentation of previously consolidated land.

Although most cropland is privately owned and generally not taxed, pasture and rough land is held communally by villages or the state. There is little incentive for improving the land and there are no controls over the number of animals grazing it. Government programs rely primarily on monetary incentives such as subsidies, easy credit and price supports, rather than land reform to provide economically efficient units.

Two basic types of farm units exist in Greece--the diversified farm and the commodity-type farm. The diversified farm, which is located in the semi-mountainous and mountainous areas, couples a semi-nomadic livestock rearing pattern with subsistence crops and some winter cereals production. The commodity farm, which is more specialized and generally located in the fertile plains and the richest semi-mountainous areas, emphasizes export or industrial crops such as wheat, corn, barley, sugar beets, cotton, deciduous fruits or citrus fruits.

Plains agriculture underwent extensive structural changes with the introduction of more intensive cultivation and crop diversification. This led to a more rational land use especially as irrigation projects were completed (since consolidation was required). The dynamic results evident in this area are the consequence of extensive investment projects--something the mountainous regions never received in such gracious amounts.

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<sup>19</sup>Recent laws to prohibit fragmentation of government lands ceded to private individuals.

## MARKETING STRUCTURE

Extensive peasant farming causes a wide dispersion of agricultural produce. The marketing system therefore relies on villages as collection point for initial concentration. From there it moves to the towns<sup>20</sup> where transportation connections are available to the larger cities, to the major processing plants, and to port facilities. The towns must serve a wider function if difficulties in production development are overcome; i.e., communications, cold storage and packaging facilities, credit institutions and markets must develop.

Regional and product cooperatives, traditionally an important institution in Greek agriculture, centered around the towns<sup>21</sup> buying harvested crops and supplying agricultural equipment, seeds and fertilizers. Until the late sixties, the cooperatives served primarily as securers of credit; today, their role is expanding to include the processing, marketing and sale of agricultural products.

The rapid expansion of commercial agriculture based on small farming units supplying export markets intensifies and complicates the marketing problems of agricultural commodities. Sustained growth of the agricultural sector depends heavily on the marketing system's ability to assemble and deliver output to domestic and foreign markets,

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<sup>20</sup>Greek towns are an important part of the economy since they provide services and serve as commercial centers for the agricultural villages. Small industries (usually involving intermediate or final processing of agricultural commodities) are centered there and it is there that the commercial consumption of farm products begins.

<sup>21</sup>The current regime is in the process of reforming the cooperative system, encouraging fusion of many smaller units and also vertical integration. This should help foster their role as processing and marketing organizations.

as well as its ability to make known to farmers through prices, or other means, the demands for quality, standardization, timing, etc., found in these markets. The entire marketing system is reorganizing in order to fulfill these needs.

At the present with roughly 50 per cent of the rural population and roughly 50 per cent of the labor force involved in agricultural production, the general criterion of commercialization is that enough be produced by the average farm family to feed itself and one other family (adjusted of course for exports, imports and other factors). Many of the more developed nations require less than 20 per cent of the population to handle production of food products. This suggests three characteristics: Greek agriculture is strongly subsistence in nature, it exhibits low labor productivity, and yet, it is sufficiently developed to take care of the non-rural half of the population as well as supplying an important volume of export commodities. The Greek farmer is content with existing productivity since family needs can be met. The needed incentive to increase output as well as farm consolidation in rural communities may well be an effectively organized market where desire for higher profits facilitates change.<sup>22</sup>

#### TECHNOLOGY AND AGRICULTURE

The fundamental changes in Greek agriculture in the last decade rested heavily on technological considerations. The initial

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<sup>22</sup>The use of the price system to promote resource reallocation in the agricultural sector is more successful than it is usually given credit for. For example see D. Narain, Impact of Price Movements on Areas Under Selected Crops in India, 1900-1939 (Cambridge: Harvard University Press, 1965).

technological transfer was an "easy" one involving the introduction of improved seeds, fertilizers and crops with government subsidies as helpful stimulants. Few changes were necessary in patterns of land usage or ownership, few major infrastructural investments were required and other conditions were propitious with buoyant foreign markets and room for the considerable import substitution of cereals.

However, subsequent technological transfers will require more effort. Changes in land use patterns are crucial, heavy infrastructural investment is necessary and significant changes in traditional ways are required. Crops must be oriented toward export and industrial markets, additional medium- and long-term agricultural investment projects must be undertaken (especially in the marketing and transportation area), and new patterns of livestock production must be developed.

The basic problem is not as much one of how to introduce technological advances but in how to guarantee their complete utilization. This is readily seen in land ownership patterns which prohibit the full exploitation of mechanization, irrigation and fertilization. The minifundia (i.e., small fragmented holdings) represents a major institutional restraint which drastically reduces the benefit from technological advances and prohibits the most efficient farming practices.

The high level of literacy in the Greek nation helps in the assimilation of technology,<sup>23</sup> since the introduction of change is more easily understood in such an environment. It is a lack of scientific and administrative personnel that hinders extension programs. The

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<sup>23</sup>The literacy rate (1961) in rural areas was 76.1 per cent compared to an 82.2 per cent national average.

great shortage of teachers and facilities for technical training also is a limiting factor.

Unification of agricultural research programs is desirable to promote thorough and rapid surveys of agricultural resources and soil surveys.<sup>24</sup> Emphasis must also include development of animal breeding stock which is easily assimilated to the Greek environment. In addition, social and economic reorganization is essential if these advances are to be fully implemented since without these the present pattern of land distribution will continue to prevail and this limits the impact that the new procedures and programs can have.

#### GOVERNMENT POLICIES

Until 1967, an extensive price support system was the major part of public agricultural policy. These supports applied to most major crops and involved government purchases of commodities at guaranteed prices. Some production subsidies also existed. Farmers consequently came to rely on government guarantees and paid little or no attention to market conditions. Recently the government's agricultural policies shifted to encourage structural changes in increased productivity. In order to encourage reliance on the mechanisms of demand and supply, the major thrust of public policy centered around an incomes policy which would increase earnings through direct transfers.

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<sup>24</sup>Myrick and Witucki, p. 25, indicate as an example that an improvement of soil structure in the plains area would be a major stimulant to the agricultural sector.

Subsidies remain a part of the program, but were geared to restructuring goals.<sup>25</sup>

For non-perishable items<sup>26</sup> a minimum government intervention price is set. Under this system, the price mechanism pursues its rationing and guiding functions while farmers turn to government only if the price of a good falls below the intervention level. The intervention level is fixed in advance and corresponds to average market prices, or world prices in the case of export commodities. Greece adheres to the minimum intervention prices set by the European Community. Direct cash grants supplement farm incomes. (Table 4-1) A

TABLE 4-1

INCOME SUPPORT AND INPUT SUBSIDIES TO FARMERS  
(billion drachma)

	<u>1967</u>	<u>1968</u>	<u>1969</u>
Income Supplement	2.5	1.9	1.4
Income Subsidies	1.5	1.0	1.0
	<u>4.0</u>	<u>2.9</u>	<u>2.4</u>

Source: Capital and Finance in Agriculture, p. 28.

system of direct income transfers is the most effective means of encouraging the agricultural community to follow market demands because

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<sup>25</sup>Subsidies still exist for fertilizers (10 to 30 per cent) and pesticides (10 to 50 per cent), for purchase of certain seed types, for livestock breeding animals and stables (up to 30 per cent), for mechanical equipment and freezing facilities, spraying and pumping equipment, tractors, etc. (30 to 50 per cent); fuel rebates and low interest loan subsidies to encourage mechanization of labor intensive commodities such as cotton and sugar beet also exist, according to Capital and Finance in Agriculture, pp. 26-27.

<sup>26</sup>For perishable items credit assistance, subsidized transportation for export items and export subsidies for processed products exist.

it allows free response to profit possibilities without forfeiting assured government earnings; however, Greek authorities cannot implement such a scheme since they are subject to the constraint of Community policies.

In terms of cost, both the old and the new agricultural programs require a substantial transfer of resources from the consumer to the producer. Although total budget appropriations fell in recent years, the figures still average out to 2400 drachma per farm family.<sup>27</sup> However, by direct income grants rather than production subsidies, overproduction of a number of products is discouraged. The government also strongly supports agricultural expansion by other means such as direct extension services, more specialized educational training, etc. . Public investment policies are explored in more detail in the next section.

#### INVESTMENT NEEDS, SOURCES AND USES

In recent years, the ratio of gross fixed asset formation to GDP has been averaging 25 per cent. The ratio of gross fixed asset formation in agriculture to gross agriculture product (GAP) is half the corresponding rate for the economy as a whole, i.e., 12 per cent compared to 25 per cent. Despite this "the expansion of investment in agriculture can be considered fairly substantial especially as . . . [the] regions best suited to farming and the most economically viable . . . have enjoyed an increase in gross fixed asset formation above

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<sup>27</sup>Capital and Finance in Agriculture, p. 27.

the national average."<sup>28</sup> Investment in agriculture fluctuates considerably and no precise correlation between investment fluctuations and gross agricultural product by volume is evident. Between 1955 and 1965 gross capital expenditure per agricultural worker increased over 400 per cent; yet the gap between annual investment per worker in the other sectors and in the agricultural sector continues to indicate a low saving/investment propensity in agriculture with respect to other sectors.<sup>29</sup> Public investment in agriculture is of prime importance in expanding the output of the agricultural sector.

The OECD estimates a five per cent return on capital invested in agriculture although the high volume of land and its importance in total fixed capital may distort this figure.<sup>30</sup> The marginal returns on investment for land reclamation, irrigation, and consolidation are quite attractive and enable further benefits through use of modern production techniques.

The effects of investment spending for mechanization are only beginning to be felt. A relatively rapid rate of growth in the number of tractors has occurred, although a shortage of agricultural machinery of other types still exists. Most farms which can both use tractor power and support its cost have them.<sup>31</sup> The use of tractors and other agricultural machinery is seriously limited by the topography and land fragmentation.<sup>32</sup>

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<sup>28</sup>Ibid., p. 73.

<sup>29</sup>Ibid., p. 4, 75.

<sup>30</sup>Myrick and Witcuki, p. 42.

<sup>31</sup>Ibid.

<sup>32</sup>The more level the land and the more extensive the holdings the greater is the potential for mechanical aids.



Almost all farm machinery is imported;<sup>33</sup> consequently, foreign exchange or barter deals are necessary. Irrigation development also requires substantial capital imports. The value of investment in irrigation machinery and equipment increased tenfold since 1960.<sup>34</sup> A third area of fixed investment expenditures utilizing scarce foreign exchange involves the breeding animals.

Operating capital falls mainly under three headings--seeds, fertilizer and pesticides, although fuel and electricity costs are increasing in importance. Expenditures on fertilizers and insecticides increased at an annual rate of 8.9 per cent and 7.2 per cent respectively over the last decade.<sup>35</sup> Expansion of these inputs is encouraged by subsidies.

Approximately one-fourth of total investment in the Greek economy derives from the public sector; agricultural investment, however, gets one-third of its funds from this sector. Roughly 80 per cent of public investment goes for land improvement and consolidation schemes, regional development programs, reforestation programs, and agricultural industries. These government funds permit large collective projects, unlikely to be financed directly out of private savings, to be undertaken.

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<sup>33</sup>Small two wheeled tractors are manufactured in Greece and this is the type worked on most small holdings.

<sup>34</sup>Capital and Finance in Agriculture, p. 75.

<sup>35</sup>Myrick and Witucki, p. 49.

The Agricultural Bank of Greece is the major source of credit for farmers.<sup>36</sup> Its overall objectives are subject to the directives of the Ministry of Agriculture.<sup>37</sup> Until recently 75 to 80 per cent of all loans were short term (of three to nine months duration) providing credit for farmers to tide them over until the next crop. Up to half of the loan was in the form of the farm's requisites.<sup>38</sup> Medium term loans of two to eight years are primarily for irrigation, livestock and machinery purchases, while long term loans (of nine to twenty years) assist in the consolidation of holdings, funding of new agricultural industries and the expansion and modernization of older ones.

The creation of larger units of operation and additional mechanization depends on the availability of medium and long term investment credit. The Agricultural Bank's credit policies therefore are constantly in review to reformulate appropriate changes.<sup>39</sup> The effectiveness of their role is essentially guaranteed since they are the only source of agricultural credit.

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<sup>36</sup>Agricultural loans are generally cheaper than industrial and trade loans and vary according to type of loan, recipient, etc.; the rates are moderate and application procedures simple.

<sup>37</sup>Among the common objectives are expansion and modernization of agricultural fixed assets, increased productivity, establishment and expansion of modern agricultural industries, re-orientation of declining areas toward more dynamic sectors of production (both agricultural and non-agricultural), and healthy and comfortable living standards for farmers.

<sup>38</sup>Capital and Finance in Agriculture, p. 78.

<sup>39</sup>For these reasons agricultural debts in existence April 1967 were written off to free the agricultural economy from the burden of past financing that was usually granted at random. Banks are freer now to grant loans in accordance with the goal of more rational production and profitability.

## GREEK SITUATION AND NEEDS

The Greek agricultural sector faced a number of serious structural problems in the 1960's. Land fragmentation, a lack of mechanization, technological and educational facilities, as well as transportation and distribution channels, undesirable cropping patterns, low productivity and insufficient employment alternatives all contributed to the depth of the problem. The association with the European Community served as a stimulus to recognize these and other problems, and the need for harmonization assisted in developing a more rational public agricultural policy, although it also prevented the use of a straightforward income supplement program.

The original objective Greece sought was an increase in self-sufficiency; once this was achieved attention could focus on the protection and growth of agricultural earnings through increased productivity and more efficient land use. Since the abandonment of the farmers is politically impossible (as is true in most economies), the most that can be hoped for is a rational use of governmental power and funds to foster efficiency in resource employment.

The most serious and immediately pressing problem of Greek agriculture, for all extents and purposes, is ignored. Farm fragmentation must be overcome before effective land utilization can be a reality. Although the optimum size of farms varies according to the product and the production method, compulsory land consolidation--although possibly

difficult to institute<sup>40</sup>--is essential to efficient land use. Too many studies show too many times the advantages to be gained,<sup>41</sup> not to mention the fact that it facilitates the introduction of more modern methods. Whatever is accomplished must be on a compulsory basis and must prohibit further fragmentation in the future except under exceptional circumstances.

#### GREECE, THE EEC AND THE CAP

Although short-run benefits were recognized in the Athens Treaty, it primarily stressed specific long-term actions to be undertaken to strengthen the agricultural sector. While early trade restraint removals increased the competitiveness of Greek agricultural products in European markets, a complete harmonization of agricultural policies would guarantee equal treatment to such products with respect to member products. By 1967 significant changes in support programs and social welfare programs for farm workers appeared as Greece began its approximation of Community agricultural policies.

At the signing of the Treaty no clear idea existed of what harmonization would entail except that by 1984 Greece's agricultural policy would be undistinguishable from Community policy. Furthermore,

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<sup>40</sup>A study in the 1963-64 period discussed in the dissertation by Costis (pp. 105-106) indicates that the farmers are willing to consolidate provided it is done by legal declaration.

<sup>41</sup>Estimates include increased output of 100 to 200 per cent by X. Zolotas [in Monetary Equilibrium and Economic Development (New Jersey: Princeton University Press, 1965), pp. 144, 213] and increased incomes of 50 to 100 per cent in a United Nation's FAO Report (Agriculture in Europe, Rome, 1957) done in the late fifties. There is little to contradict these optimistic predictions in the more recent literature.

since the Six anticipated difficulty in accomplishing harmonization in Greece, they included a veiled threat in the form of a "declaration of readiness" which member nations could submit to the Association Council. Once this was filed Greece had two years to fulfill the harmonization request and/or to negotiate needed adaptations. If this process failed, both parties were free to pursue any action necessary to protect their own nation.<sup>42</sup> The Community considered its farm policy as an indivisible whole requiring harmonization on all products and not just on those affecting Greek exports.

When the Six submitted their "declaration of readiness" at the very first Association Council meeting, Greece declared its willingness to adapt its agricultural system to the existing common farm program in its entirety; however, since Community farm policy was an indivisible whole, the adaptation of all the rules about levies and target policies meant that Greece was allowed to participate in the financial and institutional arrangements as well.<sup>43</sup> At this the Community immediately backed off and suggested minimum harmonization in the first eight or ten years and only after that a more substantial alignment.<sup>44</sup>

The whole affair "soured" Greek-EEC relations somewhat since it blatantly showed the Community's unwillingness to give Greece a voice

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<sup>42</sup>In effect the EEC could stop any or all concessions made to Greece, i.e., the association would end.

<sup>43</sup>The EEC uses two types of financial support: a fund to finance the pricing and marketing system with support purchasing and export subsidies, and a fund to assist in the structural reform of agriculture within the Community.

<sup>44</sup>Common Market, IV, No. 11 (May 1964), pp. 209-211 gives the complete details.

in the internal management of policy. Since all the privileges Greece enjoys are accorded only "in anticipation" of final harmonization, it is important to settle this aspect of Community relations as soon as a suitable political climate is achieved. The Greeks are certain to withdraw, however, unless they can obtain a secure place within the protective umbrella of the CAP. The Greek bargaining position is stronger since Greece implemented an agricultural policy in accord with that followed by the EEC. The strength of the Greek commitment to Community membership is seen in its agricultural affairs. No obligations exist at this point for harmonization of policies, yet the Greek government pursued it with alacrity.

#### PRELIMINARY RESULTS

The basic structural problems in Greek agriculture are strictly internal in origin and not related to the European Community in any way. Analogously, their correction requires domestic action. With the signing of the Athens Treaty in 1962, the need to rectify these problems intensified. Therefore, in addition to domestic considerations, Greek agriculture today responds to external motivations deriving from higher demands for its products, agricultural policies designed by third parties, fear of reprisal or competition, etc. . The Greek government, in its personal economic priorities, seeks to restructure the agricultural sector primarily to enhance the farmer's personal living standard. Yet the stimulus of eventual harmonization with the

EEC, as well as a "we'll show you" attitude,<sup>45</sup> speeds up its harmonization efforts considerably.

The general pessimism Triantis expressed about the poor soil, subsoil and small size of arable land have not represented severe handicaps in an agricultural environment characterized by technological revolution. Climatic assets also helped prevent his dire predictions by allowing double season crops and new commodities to be grown.

The Community, although already self-sufficient in the production of most non-tropical foodstuffs, requires substantial imports of certain food and agricultural commodities including tropical products, vegetable oils, and fruits and vegetables.<sup>46</sup> If Greece is to take advantage of its preferential entry and insure a future market it will more than likely shift to producing such of these products as is possible.<sup>47</sup> In addition, it must be able (1) to meet quality, packaging and standardization criteria of Western European markets; (2) to compete with Italian products by establishing highly competitive prices; (3) to improve transportation facilities and insure Greek growers the chance to market their products; (4) to improve and stabilize supply through flood control, pesticide use, etc., and (5) to refrain from subsidizing the cultivation of uneconomical crops.

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<sup>45</sup>Refers back to "Greece, the EEC and the CAP" above.

<sup>46</sup>These averaged over 30 per cent of EEC imports during the three years 1967-69 taking SITC 0.1.2.4 less 27 and 28 into account.

<sup>47</sup>By doing so it guarantees itself a ready market and the continued "good will" of the EEC nations (particularly Italy). This will eventually ease the transition to the CAP as well since coverage of products is not automatic and if Greece produces needed non-competitive products coverage will be more easily and readily applied.

A major advantage of full membership will be participation in common agricultural funding arrangements. However, if efficiency of resource allocation is desired, it is best at present that Greece not participate since the program discourages farmers from responding to market forces. Rather, Greek agriculture remains more responsive to market demands under a system of subsidies and support prices making any additional financial benefits received in 1984 from CAP funds icing for the cake.

One disappointment in the association concerns investment funds. The European Investment Bank (EIB), which lends large sums to member states and associates, as well as to underdeveloped countries, for infrastructure projects, major investment programs, etc., is unable to provide funds for structural improvements in Greek agriculture because of the political situation. Greek needs for foreign exchange and heavy investment funds are well documented and actually recognized in the Athens Treaty, yet a potential source must remain untapped. This is a serious matter and one in need of correction, but one outside the realm of economics. On the other hand the substantial technical assistance undertaken by Community agricultural interests, substantially benefitted Greek farmers and stimulated the use of many modern techniques.

#### EXPORTS AND IMPORTS OF AGRICULTURAL COMMODITIES

The average annual rate of growth of Greek exports over the 1960's was 11.6 per cent, indicating a generally buoyant market for Greek goods. The agricultural sector fails to adequately reflect this because of difficulties in expanding supply. Food and agricultural



materials provide over half of the total exports in Greece, but account for only one-fifth of total imports. (Table 4-2)

TABLE 4-2  
EXPORTS AND IMPORTS BY COMMODITY GROUPS  
FOR SELECTED YEARS, SITC CLASSIFICATION  
(per cent)

	Food and Agricultural Materials (0.1.2.4-27,28)	Fuel Ores and Minerals (3,27,28)	Materials and Semi-finished Goods (5.6)	Finished Manufactures (7.8)
EXPORTS:				
1959	85.6	7.3	5.9	1.2
1964	81.8	6.9	8.1	3.2
1969	55.6	8.1	31.7	4.6
IMPORTS:				
1960	19.3	7.5	25.4	47.8
1964	24.0	7.0	30.0	39.0
1969	20.4	8.6	25.6	45.4

Source: OECD Statistics on Foreign Trade, Series B.

The European Community and the Eastern European area are the major markets for Greek agricultural and food products. In the former such exports grew 7 per cent per year since 1964 and in the latter, the rate was over 3.5 per cent annually. Almost half of Greek agricultural exports go to Community markets.

Agricultural imports come regularly from three areas: the EEC which provides over 22 per cent of the total primarily in beef, veal and milk products; North America which supplies over 10 per cent of imports, mainly in the cereals line; and, Australia, New Zealand, and the beef producing areas of South America, providing mostly meat items.

Eastern European nations are also an irregular source of agricultural imports. (Table 4-3)

There is no doubt that the initial and consequent reductions of tariffs on agricultural products entering Community markets was beneficial to exports of such goods. The unexacting benefits to Greece were received early; now it must constantly work to maintain its position at the expense of other preferential areas. (Table 4-4) Almost all Mediterranean countries, with the major exception of the United Arab Republic, are under some sort of agreement with the EEC as a means of improving their trade relations. These are all preferential agreements, except for Greece and Turkey. Morocco, Tunisia, Algeria, Spain and Israel all export a substantial amount to the EEC.<sup>48</sup> The principal export products include citrus fruits and other fruit and vegetables from all five of these nations, wine from four of them, and olive oil and cereals from at least three, in addition to textiles, manufactured metals and chemicals. Because of the similarities of products and trading partners, any change in one preferential or association agreement causes various sorts of reactions on the Mediterranean region as a whole, especially if it concerns citrus fruit, olive oil, wine or fresh fruits and vegetables. Each nation attempts therefore to keep its position and not be put in a worsened position vis à vis their nearest competitor in the Community market.

Tobacco and raisins no longer dominate Greek agricultural exports as they once did, although they still provide over 50 per cent

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<sup>48</sup>In 1964 exports to the EEC from each nation was 63%, 65%, 93%, 36%, and 23% respectively. By 1970 it was 65%, 57%, 83%, 37% and 27% respectively.

TABLE 4-3  
GEOGRAPHICAL PATTERN OF GREECE'S TRADE  
(million dollars)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
IMPORTS:										
World Total, of which	702	714	701	804	885	1134	1223	1186	1394	1594
Agricultural products	82	101	86	115	132	178	174	178	170	189
IMPORTS FROM:										
North America	150	92	73	91	109	120	141	107	160	220
of which, agricultural	15	20	16	24	28	40	34	30	16	21
EEC	236	272	304	320	375	469	504	527	607	669
of which, agricultural	12	13	15	20	25	28	35	39	41	44
EFTA	119	133	148	153	173	207	231	215	254	260
of which, agricultural	5	6	6	9	11	12	14	17	12	13
Other OECD nations	86	61	27	32	34	50	57	40	11	27
of which, agricultural	4	5	3	4	6	7	6	4	5	11
Eastern Europe	55	50	55	68	73	102	101	91	113	97
of which, agricultural	8	10	10	17	15	24	18	12	18	17
Others	56	106	94	140	121	186	189	206	257	321
of which, agricultural	38	47	36	41	47	67	67	76	78	83

TABLE 4-3 (cont)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
EXPORTS:										
World Total, of which	203	223	249	290	309	328	406	495	468	554
Agricultural products	136	145	151	200	207	223	259	307	254	260
EXPORTS FROM:										
North America	29	33	20	56	46	33	44	68	53	59
of which, agricultural	24	29	16	51	41	26	31	53	29	32
EEC	67	68	89	95	116	122	144	200	223	250
of which, agricultural	46	45	60	67	81	90	96	128	127	124
EFTA	31	32	45	39	41	41	43	45	44	50
of which, agricultural	24	24	30	29	28	31	35	28	26	25
Other OECD nations	3	6	5	6	4	11	7	14	8	11
of which, agricultural	0.6	0.4	0.6	4	2.5	8	2	11	8	7
Eastern Europe	45	52	50	58	65	75	93	90	72	90
of which, agricultural	29	31	28	34	41	51	61	51	35	47
Others	28	32	40	36	37	46	75	78	68	94
of which, agricultural	12	16	17	14	13	17	34	36	29	25

Source: OECD Statistics on Foreign Trade, Series B.

TABLE 4-4

EEC CONCESSIONS ON AGRICULTURAL PRODUCTS BY PREFERENTIAL NATION  
(March 31, 1971)

	GREECE	TURKEY	ISRAEL
Oranges	100%	40%	40%
Mandarines/Clementines	100%	50%	40%
Lemons	100%	50%	40%
Grapefruit	100%	--	40%
Crude olive oil	Levy based on the internal price plus allowance of 0.50 u.a./100 kg. of the levy.	Reduction of 4.5 u.a./100 kg. of the levy plus 0.50 u.a./100 kg.	--
Refined olive oil	Exempt from the fixed component.	--	--
Unmanufactured tobacco	100%	100%	--
Durum wheat	--	Reduction of levy of 0.50 u.a./ton	--
Wines	System resulting from Protocol No. 14.	System to be established by the Council of Association.	--
Dried grapes	100%	100%	--
Dried figs	100%	70%	--
Preserved nuts	100%	37.5%	--
Fruits and vegetables	100%	50% for certain preserved vegetables with or without vinegar/ 50% for preserved olives and capers	40% canned grapefruit

TABLE 4-4 (cont)

	MOROCCO	SPAIN	TUNISIA
Oranges	80%	40%	80%
Mandarines/Clementines	80%	40%	80%
Lemons	80%	40%	80%
Grapefruit	--	--	--
Crude olive oil	Reduction of 5 u.a./ 100 kg. plus 0.5 u.a./ 100 kg.	Reduction of 4 u.a./ 100 kg. plus 0.5 u.a./ 100 kg.	Reduction of 5 u.a./ 100 kg. plus 0.5 u.a./ 100 kg.
Refined olive oil	Exempt from the fixed component of the levy.	--	Exempt from the fixed component of the levy.
Unmanufactured tobacco	--	--	--
Durum wheat	Reduction of levy of 0.50 u.a./ ton.	--	--
Wines	--	System to be estab- lished shortly for some quality wines, sherry, malaga.	--
Dried grapes	--	100% within a quota plus 1,700 tons.	--
Dried figs	--	30% in quota plus 200 tons	--
Preserved nuts	--	--	--
Fruits and vegetables	50% for certain pre- served vegetables with of without vinegar, 50% for certain pre- served fruits without sugar, 100% for pre- served capers & olives	50% for certain pre- served vegetables with or without vinegar and for preserved olives and capers.	Same as Morocco.

of total agricultural export earnings. (Table 4-5) Greek agricultural exports to the EEC are heavily concentrated in fruits and vegetables, tobacco and wine. It averages less than one per cent of Community cotton imports and its share of the Community vegetable oils market is just as dismal, averaging less than three per cent in the last three years. These are two areas where expanded trade is desirable, especially since citrus fruits and other horticultural products are stressed so heavily throughout the rest of the Mediterranean nations. Certainly however in terms of these other countries and their similarity in agricultural products, Greek foresight in the early sixties pays off by providing it with a better relative tariff position than is possible in the other nations bordering the Mediterranean. (Table 4-4)

Only a limited reduction in Greek duties on EEC agricultural products has occurred since 1962. This is in accordance with the Treaty which requires only a 20 per cent reduction in the first ten years.

Triantis's prediction of increased Greek dependence on the EEC, as both an import source and an export source, holds true as does his warning that the trade balance is of crucial significance. A serious and sustained deficit is a severe burden and one which may not be made up wholly or partially through the capital account. However, on an agricultural basis this is not a problem. The trade balance with the EEC is positive and has been throughout the sixties and the same is true on a world wide basis. (Table 4-6) However, while the EEC accounted for 22 per cent of Greece's agricultural imports and 48 per cent of its exports in 1969, over 88 per cent of the trade surplus in

TABLE 4-5

MARKET DISTRIBUTION OF SELECTED AGRICULTURAL EXPORTS  
(Values in million dollars)

SITC Classification		051	052	053	054	055	112	121	211	263	421-2
Value	1955	3.8	29.9	4.1	0.2	0.2	3.5	76.7	4.5	21.5	5.8
	1969	37.5	45.5	10.8	8.1	14.2	11.9	102.7	15.7	30.3	7.0
Percentage to:											
EEC:	1955	40	40	10	--	--	57	54	69	81	78
	1960	30	28	18	9	20	46	37	32	25	67
	1967	51	31	52	49	9	60	33	16	16	90
	1969	56	37	62	54	50	75	41	20	5	80
EFTA <sup>a</sup>	1955	13	50	2	100	50	23	13	11	1	5
	1960	14	52	6	55	--	21	10	2	2	2
	1967	13	39	14	14	3	10	4	--	7	--
	1969	8	32	4	2	3	5	5	1	5	1
Eastern Europe <sup>b</sup>	1955	42	4	20	--	--	--	4	4	--	3
	1960	46	15	28	--	--	--	22	32	40	--
	1967	28	20	23	7	19	11	20	53	42	6
	1969	36	29	30	32	22	7	28	58	89	13



TABLE 4-5 (cont)

SITC Classification		051	052	053	054	055	112	121	211	263	421-2
North America & Japan	1955	--	2	24	--	--	11	25	--	--	5
	1960	1	3	17	--	40	25	27	1	7	5
	1967	--	1	7	12	38	15	37	1	1	2
	1969	--	1	3	11	21	12	25	2	--	4
Rest of World <sup>c</sup>	1955	5	4	4	--	50	9	4	16	18	9
	1960	9	2	31	36	40	8	4	33	26	26
	1967	8	9	3	18	31	4	6	30	34	2
	1969	1	1	1	2	4	1	--	20	1	3

Source: Calculated from OECD Statistics on Foreign Trade, Series B.

Notes: <sup>a</sup>Excluding Portugal, including Iceland and Ireland. <sup>b</sup>Including Bulgaria and Rumania.  
<sup>c</sup>Including Greece, Turkey, Portugal, Spain and Yugoslavia. The SITC Classifications are as follows: 051, Fruits and nuts, fresh; 052, Fruits, dried; 053, Fruits, preserved; 054, Vegetables, fresh; 055, Vegetables, preserved; 112, Alcoholic beverages; 121, Tobacco leaf; 211, Hides and skins; 263, Raw cotton; and 421-2, Vegetables oils.

TABLE 4-6

GREEK AGRICULTURAL TRADE, SELECTED YEARS  
(million dollars)

	1950	1955	1960	1965	1966	1967	1968	1969
Total Imports, of which:	428	382	702	1134	1223	1186	1392	1594
Agricultural products	118	84	82	178	174	178	175	192
Total Exports, of which:	93	183	203	328	406	495	468	554
Agricultural products	78	131	136	223	259	307	245	255
Trade Balance	-335	-199	-499	-806	-817	-691	-924	-1040
Agricultural Balance:								
a) excluding raw cotton	-38	47	54	45	86	129	72	63
b) including raw cotton	-35	68	73	66	114	171	107	93
EEC Agricultural Balance	--	--	34	62	61	96	92	81
Imports from EEC, of which	--	--	236	469	504	527	607	669
Agricultural products	--	--	12	28	35	38	41	43
Exports to EEC, of which	--	--	67	122	144	200	222	250
Agricultural products	--	--	46	90	96	127	126	123
Total EEC Balance	--	--	-169	-347	-360	-327	-385	-419

Source: OECD Statistics on Foreign Trade, Series B.

agricultural commodities accrues there. Furthermore, excluding trade in raw cotton, Greece's agricultural surplus with the EEC often exceeds its total agricultural surplus (as in 1965, 1968 and 1969).

The Athens Treaty declares that trade in agricultural products and foodstuffs is an integral part of the total agreement and that the general rules in the Treaty regarding removal of trade barriers apply to these products as well. Later the document indicates that for this to prevail, Greek farm policy is to be harmonized with the (future) CAP. Consequently, until the CAP is established no tariffs or other restrictions can be abolished between the two areas. Any barriers removed on agricultural products rests on the specific protocols and annexes at the end of the document. This insures the autonomy of the EEC since lack of harmonization keeps associate members from interfering with Community farm action in its formative stages. It also protects the interests of individual member states within the EEC. Greece did secure the right to formal consultation on general farm policies and in the case of tobacco, the right to veto Community action until November 1, 1966. After 1966, Greece was guaranteed that any CAP involving tobacco would not operate to the detriment of its raw tobacco exports to the EEC. Tobacco came under the CAP in 1970.

Despite these guarantees, the common agricultural policy generally hinders Greek exports by protecting member markets and producer states. The burley tobacco market illustrates this very well. Greece diversified tobacco production and improved its export position by entering into burley tobacco production in the sixties. Burley is one of the few types of tobacco experiencing growth in demand. At the time of

the decision, Italian production was negligible because of blue mold disease and burley exports from Greece to the EEC were duty free, compared to a 12.7 to 15 cents per pound duty on non-preferential sources. Greece became the world's fifth largest grower and the second largest exporter of burley by 1969, with the EEC purchasing two-thirds of its exports. In 1970, burley and other tobaccos came under the CAP. High guarantee prices and buyer's premiums were set for Italian burley, causing an expansion in Italian burley production and a decline in Greek exports.<sup>49</sup> In fact, Greek exports decreased 50 per cent overall, with the largest drop in exports coming from Western Germany where a decline of over 90 per cent from the 3936 tons it imported in 1970 took place. Greece complained to the EEC that although Greek opinions were supposed to be sought during the preparation and drafting of policy they had not been. Consequently an inappropriate procedure was involved in determining the guarantee price.<sup>50</sup> Unless the Community alters its position, a bright export prospect for Greece is doomed, illustrating how easily preferential access can be ignored.

Eventually any evaluation of the Greek-EEC position regarding agriculture must come to grips with the influence of the CAP.<sup>51</sup> This policy, with which Greece is harmonizing its agricultural system, is

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<sup>49</sup>Burley output rose almost 30 per cent in two years and a portion of this is in stabilization agency hands, therefore making it eligible for a Community subsidy if exported.

<sup>50</sup>Foreign Agricultural Reports, December 6, 1971, p. 12.

<sup>51</sup>The issue is critical for Greece. It agreed to abide by Article 39 of the Rome Treaty which explicitly states that price supports and other related forms of government intervention must be harmonized before a common Greek-EEC agricultural policy can be implemented.

basically protective and designed principally to insure self-sufficiency in temperate crops through a system of levies protecting domestic producers of these and other crops from outside competition. In addition, it serves to assist in modernizing the agricultural sector and to guarantee large markets and stable prices which will foster commercial enterprises. It can result in highly protective situations as the burley example indicates. However, from a long-run position, Greece stands to benefit considerably at full membership from these same policies which today prove a hindrance. When Greece enters fully under the CAP, Italian agricultural products will no longer receive special treatment vis à vis Greek ones; therefore, they can compete on an equal footing. Both Greek tobacco and citrus fruits are already priced below the same Italian items, yet sell for the same or higher prices in Community markets because of the levy system. Furthermore, if Greece is able to actively direct and help determine agricultural policies, its vested agricultural interests can be defended.

The Community market is very responsive to the type of agricultural goods Greece produces.<sup>52</sup> This is generally true of the rest of the world. Its other close trading partners either produce goods competitive to those of Greece, or are unable to expand incomes sufficiently to allow additional consumption of such goods as raisins, citrus, fresh vegetables, etc., or have no hard currencies with which to purchase them. Under the CAP umbrella Greece is virtually guaranteed a large market for its commodities.

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<sup>52</sup>See the various OECD market surveys on products produced in Greece.

It bears repeating that little, if any benefit would accrue to Greece by full participation in the CAP at this time because the distorted market picture it provides, and in particular, the availability of support funds, would hinder resource reallocation at a time when it is absolutely necessary if Greece is to become agriculturally sound. The trend presently is to encourage those goods in heavy demand in the EEC and the rest of Europe and/or those which enter duty free. If either were guaranteed a market under protective levies or other means, efficiency levels would probably be lower.<sup>53</sup>

It all ultimately boils down to the fact that the Greek-EEC Treaty is nothing more than a preferential agreement, particularly under the existing military dictatorship in Greece. This dictatorship robs Greece of considerable bargaining power and gives it nothing more than number one preference position in a potentially closed market. Although there is not sufficient reason from an agricultural standpoint to move away from this position, neither is there any reason to be fooled into expecting it to provide any more substantial benefits to Greece in the next ten years. In 1984 additional benefits will accrue, but until then Greece must rely on its own initiative to solve agricultural problems.

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<sup>53</sup>In addition, many of the prime agricultural commodities now sold primarily in non-Community markets will be able to be sold in the EEC after 1984. In addition, olive oil and wines which are currently discriminated against will enjoy complete freedom of entry.

## CHAPTER V: GREEK INDUSTRY

Industry in Greece is less than one-hundred years old and throughout its first century either high tariff walls or an overvalued currency protected it. Earliest attempts to expand the industrial sector in the post-war era came from the government, although today a free enterprise economy relying on private initiatives to advance industrial development predominates. Foreign participation is welcomed especially in promoting large-scale concerns. The avowed national goal of better competitive conditions for Greek products in world markets assists the industrial expansion and sets the stage for continued growth by promoting a more complete mobilization of potential resources as well as the modernization and specialization of production methods.

Development for Greece implies changing emphasis within its economy with less reliance placed on primary activities and more on secondary or tertiary ones. Since world-wide per capita incomes in agricultural nations tend to be less than in non-agricultural ones or since higher per capita incomes tend to be associated with a more varied economic structure,<sup>1</sup> underdeveloped areas usually tend to gravitate towards greater and greater interest in manufacturing activities. They view manufacturing industries as more flexible, competitive and subject to greater output expansion than agriculture. More control over

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<sup>1</sup>Alan B. Mountjoy, Industrialization and Underdeveloped Countries (Chicago: Aldine Publishing Company, 1967), p. 64.

production and production costs exists,<sup>2</sup> so greater price stability is possible. In addition, more constant employment situations prevail. These factors coupled with limited amounts of agricultural lands and the expectation that future limits exist on the ability of technology to expand output in agriculture sufficiently to sponsor continued and rapid growth, further stimulates industrial advance in the Greek nation.<sup>3</sup> Services are important to the nation (and perhaps adequate to siphon off excess agricultural workers), but by themselves, are inadequate to overcome balance of payments deficits. Since the industrialization process gives some emphasis to exploiting agricultural and mineral resources, it also helps to promote regional progress.

This chapter examines the role played by the EEC agreement and domestic policies in creating a climate of change in which the general pattern of production and the industrial structure could be altered to promote greater diversification and competitiveness in the economy. As a result of such efforts new types of industries and new methods of production appeared during the sixties in the industrial sector of

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<sup>2</sup>A very high proportion of farm costs are in fixed charges; relatively few are variable. This means that under adverse conditions decreasing farm output saves the farmer only a very small portion of his total costs.

<sup>3</sup>Discussion in the American Economic Review: Papers and Proceedings, XLIX, No. 2 (May 1959), p. 170, by Benjamin Higgins states this idea well. "In some developing countries either the supply of primary commodities or foreign demand for them would eventually prove to be a limiting factor for the country's economic growth. In such a situation, the preferential treatment of manufacturing industry, where supply and demand limitations are negligible, would be warranted not only vis à vis traditional primary commodities, but also in comparison to the primary sector as a whole."



Greece. Our presentation begins with an examination of the production costs in this sector and a description of the industrial structure, pointing out areas where important changes occurred, especially in the traditional mining and handicrafts industries. The investment picture is analyzed and the effects that trade preferences and public economic policies had in promoting private investments is examined. Special emphasis is also given to their influence on the export and import of industrial products.

A review of resource efficiency and determination and cost considerations in the Greek economy indicates that key elements in its industrial expansion were (1) a heavy reliance on competitive pricing and indigenous resource endowments as the determinants of industrial developments, and (2) a substantial inflow of foreign capital exposing the economy to modern production and marketing methods. The emphasis on export expansion (in lieu of import substitution) further encourages competitive pricing while the openness of the economy encourages the overflow of competitive cost considerations into industries developed especially to meet domestic demands. Moreover, the EEC association strengthens efforts to remove protective barriers, thereby urging an end to the traditional complacency of business enterprises. Our conclusions further show that the preferential access accorded Greek industrial exports in EEC markets successfully led to a much greater expansion of such products in those markets than that experienced by Greek export sales to other advanced Western economies of the less developed world.

Throughout the chapter numerous examples of perceptive government policies designed to strengthen and promote the use of a free market system appear. This more than anything else seems to explain the phenomenal Greek success, and it is precisely this element that Triantis failed to anticipate.<sup>4</sup> His entire message rests on the basic assumption that the past rules the future; consequently, he is unable to recognize that past patterns of economic behavior can be broken with the appropriate encouragement or incentive. He constantly expects the worst, assuming that Greece can never make the changes necessary to better itself. Yet this chapter repeatedly describes an economy where substantial efforts are continually being made to overthrow the protective chains of the past.

Triantis felt that Greek industry could never compete successfully with foreign producers. He was able to visualize the dynamism which foreign investment can bring to an economy, but was unable to anticipate that foreign investment would ever extensively enter the Greek economy. Nor could he anticipate government policies encouraging efficiency of resource use, when in the past the opposite generally held true. Triantis had difficulty in accepting the rapidity with which new industries can overcome their initial handicaps and become competitive; consequently he expressed concern that twenty-two years was too short a period for infant industry development. He failed, therefore, to appreciate the "escape clause" in Article 18 of the Athens Treaty which permits additional protection after 1984 in just such cases.

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<sup>4</sup>See Chapter I above.

The Athens Treaty also recognized that imports of capital goods and raw materials are essential to the development process. To facilitate the movement of such items, the Community granted Greece full benefit of all existing and future tariff reductions within the EEC. In return, Greece agreed to abolish all tariffs on EEC industrial imports within twelve years for goods not produced in Greece, and within twenty-two years on other manufactured products. Since November 1962 Greek manufactures have entered the European Community duty free. Greece also is removing other import restrictions including licensing requirements, prepayment of imports, quotas and other administrative controls. It also began its progressive alignment on import duties to the EEC's common external tariff (CXT). At this point, 60 per cent of the existing import tariffs on 12 year goods and 20 per cent on goods listed in the 22 year schedule are removed and a 30 per cent realignment toward the CXT is completed.

#### THE SETTING IN GREECE: GNP CONTRIBUTION, TYPES OF INDUSTRY, COSTS OF PRODUCTION AND EMPLOYMENT

In the middle sixties, the industrial sector overtook agriculture in terms of its contribution to GNP. A steadily rising industrial production index (Table 5-1) pushed secondary production to a contribution in excess of 31 per cent of total national product.<sup>5</sup> Despite this gain, the industrial sector remains dominated by small scale establishments whose orientation is toward domestic markets and whose

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<sup>5</sup>This is the 1969 figure from The Revolution of 21st of April Builds a New Greece (referred to in the future as 21st of April) (Athens: Ministry of Coordination, Public Relations Service, 1970).

TABLE 5-1  
INDUSTRIAL PRODUCTION INDEX  
1959 = 100

	1961	1963	1965	1966	1967	1968	1969
Foodstuffs	105.8	117.7	119.9	130.5	136.6	150.4	154.1
Beverages	115.7	120.2	162.1	196.4	214.3	212.8	201.3
Textiles	119.2	129.7	153.9	168.9	173.1	180.0	200.5
Footwear and Clothing	105.6	113.8	115.6	108.0	115.3	117.6	141.6
Wood and Cork (excluding furniture)	119.4	139.2	120.8	126.4	156.6	162.0	172.1
Furniture	101.6	108.3	98.3	92.8	81.2	73.6	72.9
Paper	112.4	133.5	158.6	192.8	205.3	217.9	252.4
Printing and Publishing	113.0	119.0	104.7	127.8	114.6	113.0	117.7
Leather	111.8	108.8	103.1	115.3	112.1	106.3	109.7
Rubber Products	109.6	138.4	136.6	193.8	437.0	489.8	632.2
Chemicals	122.9	146.1	181.4	216.7	311.9	355.6	---
Petroleum and Coal Products	104.3	117.1	121.1	175.0	222.5	261.1	406.6
Nonmetallic Products	107.9	130.7	169.8	187.9	201.4	205.6	244.8
Basic Metal Industries	145.0	186.1	330.7	476.3	576.2	719.4	942.9
Metal Products	147.7	164.4	245.8	265.3	219.0	245.3	270.3
Machinery (excluding electrical and transport equipment)	96.3	85.9	81.8	84.6	80.6	75.3	75.0
Electrical Machinery and Appliances	143.6	148.5	165.9	166.3	238.5	221.1	258.3
Vehicles	170.7	179.2	201.1	206.4	197.8	201.6	217.8
GENERAL INDEX	---	132.5	158.4	182.8	187.3	208.0	237.1
Mining	---	115.4	133.9	141.8	145.6	158.1	182.9
Manufacturing	---	136.6	163.2	187.1	192.0	205.9	229.2
Electricity-Gas	---	139.4	188.2	240.0	283.3	311.8	356.2

Source: Greek Statistical Yearbook, 1965 and 1971.

capital and entrepreneurial resources are very limited. A significant percentage of these industries are in the handicraft or artisan category operating from within the owner's domicile.<sup>6</sup>

Textiles is the largest industry with food-beverage processing and chemicals the next largest. Together these three areas account for over 50 per cent of total industrial output (in 1960-61 they provided 75 per cent or more). In recent years, building materials, paper, leather, electrical appliances and metal goods industries underwent considerable growth.<sup>7</sup>

TABLE 5-2

## OUTPUT GROWTH, SELECTED INDUSTRIES

	<u>1968</u>	<u>1969</u>	<u>1970*</u>
Basic Metallurgy	24.9%	31.1%	22.7%
Plastics and Rubber	12.1	29.1	11.3
Chemicals-Pharmaceuticals	14.0	14.3	10.0
Electrical Machinery, etc.	-6.3	16.8	18.6
Transport Means, etc.	1.9	8.0	18.6

Source: 21st of April, p. 37.

\*Through June

Industrial employment grew more slowly than industrial output, averaging only a four per cent increase between 1968 and 1970. The industrial labor force accounted for 21 per cent of total employment

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<sup>6</sup>BLS Report No. 325, Labor: Law and Practice in the Kingdom of Greece, A Report of the United States Department of Labor, Bureau of Labor Statistics (Washington, D. C.: Government Printing Office, 1968), p. 25.

<sup>7</sup>Products produced include canned vegetables and fruits, beer, fruit juices, wine, cigarettes, textiles, yarn, shoes, synthetic timber, paper plastics and rubber products, chemical acids, pigments, soap, pharmaceutical products, chemicals, disinfectants, fertilizers, glassware, porcelain sanitary items, power coils and household goods.

in 1967.<sup>8</sup> A United States Bureau of Labor Statistics study indicated few shortages of skilled personnel, partly because of repatriated workers receiving training in foreign countries. As regular employment opportunities open up in Greece and skilled training becomes more readily available, there is little reason for even temporary losses of labor skills most needed to develop domestic resources.<sup>9</sup> The most serious skilled manpower deficiency is in technical assistants and industrial management personnel.

Money wages increased substantially in the sixties. During 1961-64, the average annual wages paid increased 20 per cent; in 1965, 10 per cent; and in 1966-70, 38 per cent.<sup>10</sup> Basic labor costs are considerably inflated by extensive employer contributions to welfare

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<sup>8</sup>United Nations Monthly Bulletin of Statistics, July 1971. Registered unemployment in 1970 was 32,000--down considerably from the 1967 figure of 77,000. Employment figures include persons engaged in agricultural activities, domestic service, maritime activities, industrial and direct employments. The industrial labor force includes workers employed in construction and public works, manufacturing, mining, quarrying and electric, gas, water and sanitary services.

<sup>9</sup>These outside observers additionally noted that Greek workers are easily adapted to various types of work and endowed with natural skills and dexterity. BLS Report No. 325, p. 32.

<sup>10</sup>21st of April, p. 28 and BLS Report No. 325, p. 85. The statistics for this latter period give a distorted picture since basic pay was equalized between the sexes--women's wages increased substantially faster than men's wages (42 per cent versus 25 per cent), although the basic wage rate grew more slowly at around 22 per cent. Real wages while not rising quite as rapidly as money wages also grew substantially since price rises were so moderate during the sixties. However, no figures are available for real wages.

and social insurance programs, unemployment compensation, family allowances, revenue taxes on wages and extensive bonuses.<sup>11</sup> Despite this wages and salaries account for less than 25 per cent of total industrial costs in Greece.

During the sixties productivity increased at a slower rate than wages for unskilled laborers and for over 50 per cent of those employed in manufacturing. Productivity grew more rapidly than wages only in the major industries, where extensive investments in industrial equipment occurred.<sup>12</sup> Greek wages and productivity will continue to lie below those of Western Europe and the United States until greater mechanization and improved organization and administration take place.<sup>13</sup>

Materials costs, which often run as high as 50 to 60 per cent of total production costs faced by firms, dwarf other expenditures on fuel and power, capital depreciation, interest payments, labor, etc..<sup>14</sup>

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<sup>11</sup>Labor costs increase 50 to 60 per cent when these are included. Annual wages include a Christmas bonus (one month's salary or 25 day's pay), and an Easter bonus (1/2 month's salary or 15 day's pay). Employees also have an annual leave allowance, maximum of 13 days. Vacations with pay are required by law. Comprehensive social insurance system contributions are also required (26 to 27 per cent of paid wages and salaries). Overseas Business Report, 70-46, p. 11.

<sup>12</sup>BLS Report No. 325, p. 89.

<sup>13</sup>Comparison of hourly earnings among nations is difficult because of various reservations and qualifications having to do with bonuses, cost-of-living clauses, vacations, fringe benefits, social security payments, etc., which enter into total labor costs. OECD and United States government sources indicate an advantage for Greece with regard to labor costs, although no figures are given.

<sup>14</sup>Triantis, op. cit., p. 143. High material's costs are quite common in lesser developed areas, handicapping industrialization. It arises in part from poor resource endowments, high costs of producing or transporting raw materials, and, from small size operations unable to take advantage of economies of bulk buying and handling.

Power costs are aligned to EEC rates, although in the early sixties rates were considerably higher. Transportation costs are lowest if sea routes are used. Internal transportation routes presently under construction will lower transportation costs substantially.<sup>15</sup>

The scale of operations in industry widened since 1963. The conditions below held at that time:

TABLE 5-3  
EMPLOYMENT BY SIZE OF ESTABLISHMENT

Number of Workers	Establishments	Per cent	Cumulative Per cent
Under five	107,382	87.8	87.8
Five to nine	9,017	7.4	95.2
Ten to nineteen	3,352	2.7	97.9
Twenty to forty-nine	1,697	1.4	99.3
Over fifty	884	0.7	100.0

Source: BLS Report No. 325, p. 25.

By 1967, firms employing over 50 persons represented more than 3 per cent of manufacturing units while those employing fewer than 10 persons were below 85 per cent--a significant change for a four year period.<sup>16</sup> Between 1967 and 1969, more than 12 per cent of the 2,223 firms established employed over 20 persons.<sup>17</sup>

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<sup>15</sup>Only in the last five years has much been done to improve domestic transportation routes. Completion of these projects is expected to lower internal transportation costs by as much as 100 per cent in some cases. See the 21st of April, pp. 120-23.

<sup>16</sup>Psilos, op. cit., pp. 10-11.

<sup>17</sup>Ibid., pp. 20-21.



Larger industries must rely extensively on heavy imports of machinery, parts, fuel, and/or raw materials and most Greek businessmen are not equipped to provide or handle the necessary investments for such items. The predominance of small industrial enterprises also results from a national characteristic to seek independent employment, preferably in white collar type work.<sup>18</sup> Specialization and/or vertical and horizontal integration are uncommon in local industries. Where foreign investment capital predominates, i.e., in the larger industries such as petroleum, chemicals and basic metals, specialization and integration are more common.

#### HANDICRAFT INDUSTRIES<sup>19</sup>

Craft industries are very important in the Greek economy, producing over 50 per cent of the national demand for foodstuffs, clothing, footwear, household appliances and other consumer goods. In addition they supply most of the machinery and tools necessary for accessory production and for the maintenance and repair of older machinery. Twelve per cent of the working population find employment in over 120,000 such enterprises, 75 per cent of which are in rural areas.<sup>20</sup> Nearly 40 per cent of domestic income from manufacturing and 26 per cent of total output from manufacturing and processing originates in these industries.

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<sup>18</sup>BLS Report No. 325, p. 13.

<sup>19</sup>This industry is distinguished from others since craft production depends on the personal work of the artisans and their assistants. Tools and machinery serve in a purely auxiliary capacity.

<sup>20</sup>These establishments are an important part of the village economies. They contribute 8.5 per cent of the national income.

Although major projects and large manufacturing units employing mass production principles became an important adjunct to the total industrial revolution in Greece by the mid-sixties, they were foreign to the Greek craftsman. Given time, the handicraft sector recognized the trend to larger units and combined efforts to expand their market and to introduce mechanized equipment. This helped assure their place as development occurred even though their linkages with other industries were minimal. Moreover, as long as wages remain low in this sector, domestic consumption items (their major type of output) could be supplied without the need to divert already scarce investment funds from more essential purposes.

Aggregate financing of handicrafts rose 250 per cent between 1966 and 1970.<sup>21</sup> As tourism and promotional efforts expand, growing demands for Greek handicrafts occurred. (Table 5-4) Efforts to assist

TABLE 5-4

EXPORTS OF HANDICRAFTS  
(Million drachma)

Item	1966	1969	1970*
Furs	215	426	180
Leather articles, especially footwear	35	106	90
Pop art items	23	63	51
Others**	242	409	334
TOTAL	515	1004	655

Source: 21st of April      \*January through July      \*\*Other includes jewelry, ceramics, toys, silverware, weaving products, metal and wood carving, rugs, needlework, etc. .

<sup>21</sup>Over 20,000 establishments received loans with almost 40 per cent for mechanical equipment and buildings.

this expansion by the government included studies to determine the potential market and the needs of specific branches of crafts, a Centre for the Development of Craft Industries to reform and modernize production and expand development, a Craft Industry Export Organization, and programs to insure continued craftsmanship training.<sup>22</sup>

#### MINERAL INDUSTRIES

Mining activities have existed in Greece since ancient days. The geological structure is such that a notable variety of deposits exist, with over twenty different ores and minerals found under conditions favorable for exploitation. Two major weaknesses preventing previous development of some resources were the lack of processing facilities locally and the low metallic content of many ores, implying excessive transportation costs in unprocessed form. Recent systematic exploration of mineral wealth revealed deposits extensive enough to warrant sustained mining and processing operations.<sup>23</sup> In addition to providing basic resources for the production of metal and other

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<sup>22</sup>1st of April, p. 29 and BLS Report No. 325, p. 37.

<sup>23</sup>Reserves in million tons are as follows:

Mineral	CERTAIN		PROBABLE	
	1969	Percentage increase 1966/1969	1969	Percentage increase 1966/1969
Bauxite	71.0	80.0%	89.0	100.0%
Marble		Practically unlimited		
Nickel-iron	8.5	63.5	79.5	169.0
Magnesite	17.5	67.0	30.0	57.0
Lignite	3680.0	753.2	700.0	no change
Perlite	1000.2	6566.7		undetermined
Bentonite	5.0	355.0	10.0	122.0

industrial products and power generation, mining also provides decisive support to the Greek foreign exchange balance.

Less than one per cent of the labor force finds employment in mining. This share is likely to remain the same since enterprises increasingly emphasize utilization of mechanical aids as cheap power becomes available. Mining and quarrying provide 5.3 per cent of GDP, up almost one percentage point since 1960. Products mined or quarried include barytes, bauxite, magnesite, chromite, manganese, lead, iron, nickel and zinc ores, gypsum, kaolin, bentonite, pumice stone and perlite. Extensive lignite deposits form the basis of electric power production in Greece since no coal deposits exist.

Private ownership predominates in mining and related industries; minimal government ownership exists. The government encourages the exploitation of mineral resources through investment in fixed capital (17 per cent derived from government sources), support for systematic and intensive exploration, modernized mining legislation and its provision of infrastructure developments, technical training and tax and credit incentives. Mining operations assist the regional development programs by turning sleepy rural communities in inaccessible regions into more vigorous centers of economic life.

Mineral processing and production rapidly expanded in the last ten years and exports of minerals, ores and metallurgical products reached \$134.4 million in 1970, over 20 per cent of total exports.<sup>24</sup>

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<sup>24</sup>Exports of minerals earnings more than \$1 million in foreign exchange in 1969 include bauxite, clay, lead, magnesite, barite, marble, nickel, sulphur and zinc. Those yielding \$550,000 or more include chromium ore, clay and iron pyrites.

Exports increased at a rate of 7 per cent for the period 1959-64 and over 16 per cent annually during the four years 1965-1969. This is well above the world average of less than 12 per cent annual growth.

#### DOMESTIC AND FOREIGN INVESTMENT

Private domestic savings at the end of 1970 reached \$3 billion, up from \$1.69 billion at the end of 1967.<sup>25</sup> This provided major assistance in funding development projects in an economy where capital needs predominate. Foreign capital inflows also assisted in easing the pressure for development capital. Industrial investments increased 450 per cent between 1958 and 1967, leading to a rapid expansion of industrial output. The relative stability which followed the 1967 coup plus the continued stability of prices and currency values also facilitated a climate of security beneficial to investment undertaking.

An aggregate investment rate of 15 per cent of GNP prevailed in 1948-52, rising to 20.2 per cent in 1961-64 and averaging over 25 per cent in the 1965-69 period (all measured at 1958 prices). At the same time private fixed investment increased from 7.3 per cent in 1948-52 to 15.5 per cent in 1965, and to 18.8 per cent in 1969. This increase in domestic investment and growth of capital contributed substantially to economic expansion.<sup>26</sup>

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<sup>25</sup>The heavy investments in housing and trade in the last ten years--areas of very modest contribution at best to advancing productivity and structural improvements--may indicate the need for a structural revision in Greek investment patterns in the future.

<sup>26</sup>This phenomenal growth is largely in response to governmental efforts to expand savings by higher and differentiated interest rates, ease of withdrawal and deposit, etc. .

Domestic investment figures (Table 5-5) show fixed asset formation more than doubling in manufacturing and increasing almost 400 per cent in mining between 1960 and 1970. Total gross investment in 1970 at constant 1958 prices was \$1870 million, an increase of 12 per cent over 1969.<sup>27</sup> While gross domestic fixed asset formation in manufacturing grew more rapidly over the decade than total investment or investment in all other categories excluding mining, it still amounted to only 10.4 per cent of total investment in fixed assets in 1970. (It averaged slightly higher than this over the 1965-70 period.) During the sixties investment in housing was quite high, but by 1970 the structure of investment shifted more toward industry and basic infrastructure--a move the government and some business leaders hope will continue.

Government's role is basically limited to providing incentives to promote high technology industries, industries producing basic intermediate industrial products, and industries producing capital goods. Legislation provides tax relief on investment projects where the initial outlay is in excess of \$2 million and on plant expansions exceeding \$667,000. (Laws 2787/1953 and 4171/1967) Depreciation allowances allow liberal write-offs for heavy capital investments as well as extensive holdovers for manufacturing and mining operations. (Law 147/1967) In addition the distribution of public investment helps determine which basic infrastructure projects are funded. Government planning efforts determine priorities among the projects to be funded,

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<sup>27</sup>United States Department of Commerce, Bureau of International Commerce, Foreign Economic Trends, ET-136 (October 30, 1971), p. 8.

TABLE 5-5

GROSS DOMESTIC FIXED ASSET FORMATION  
(Million drachma, 1958 prices)

YEAR	MANUFACTURING	MINING AND QUARRYING	OTHER	TOTAL	MANUFACTURING (per cent)
1960	1759	102	17313	19174	9.2
1961	2174	135	18321	20630	10.5
1965	4241	357	28315	32931	12.9
1966	4150	410	32629	36589	11.3
1967	3691	462	31939	36092	10.2
1968	4459	465	38120	43044	10.4
1969	5073	479	45692	51244	9.9
1970	5808	500*	49792*	56100	10.4
Increase, 1960-1970	230%	390%	188%	193%	---

Source: The New York Times, January 11, 1971 and Greek Statistical Yearbook, 1971. \*Preliminary.

recognizing that its investment expenditures assist both modernization of the general economy and dispersion and development of industry.

Government funds also provide for industrial estates.<sup>28</sup> Further influences over the structure of industrial development come from licensing regulations and loan and tax subsidies which stimulate manufactures of high unit value export products and other desired items. Small enterprises are prodded to merge, secure additional capital, and build modern plants through government incentive programs. In time many uses of direct and indirect subsidy must end because EEC regulations prohibit their use.

The interest rate is an important tool in directing investment toward more desirable ventures, particularly where long-term investments are involved. Greek monetary officials determine differential rates to promote development objectives, although for a nation actively engaged in expansion, interest rates remain relatively high. The interest rate structure in December 1970 was as follows:<sup>29</sup>

<u>Loans and Advances to:</u>	<u>Yearly Interest Rate</u>	<u>Yearly Commission</u>
Industry: Bills discounted	8.0	1.0
Credit for working capital	8.0	1.0
Long-term loans	7.5	1.0
Handicrafts	7 to 8	1.0
Export and Tobacco Trade	6.0	0.5
Domestic and Import Trade	10.0	1.0

<sup>28</sup>These estates are regionally dispersed and have full infrastructure facilities such as transportation, communication, water supplies, electricity and waste disposal available.

<sup>29</sup>Greece: Investment Guide (Athens: Hellenic Industrial Development Bank, 1969), p. 72. These rates are set by Law 1471/1967 and Law 2687/1953.



Special legislation, Law 147/1967, allows up to four percentage points of the interest payment on loans for industrial development to be subsidized by the government, provided the remaining interest rate is above three per cent.

Steadily growing bank deposits contribute decisively to the ability of Greek banks to widen bank financing.<sup>30</sup> Credit for personal and consumer loans remain highly limited; however, domestic and foreign firms can borrow freely from commercial banks under regulations issued by the Currency Committee. Enterprises also can obtain funds from the Hellenic Industrial Development Bank (ETBA) or from two private development banks operating in Greece. The major functions of such banks are to extend long-term loans to industrial, mining, tourism, shipping and export enterprises;<sup>31</sup> to enlarge technical and managerial assistance; to attract and promote joint Greek-foreign ventures; to establish and develop new enterprises; and, to encourage new issues of stocks and bonds by underwriting them. ETBA, as a public operation, also serves as a central investment agency to accelerate and to implement the government's economic and industrial expansion program.

Although national savings expanded considerably, they were unable by themselves to generate enough capital to fully finance industrial

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<sup>30</sup>Traditionally little reliance is placed on raising capital funds through stock or bond issues. The function of such issues in the future is discussed by George C. Maniatis, "Reliability of the Equities Market to Finance Industrial Development in Greece," Economic Development and Cultural Change, 19, No. 4 (July 1971), pp. 598-620.

<sup>31</sup>Most manufacturing, shipping, mining and tourism credits come from these banks where both long- and medium-term loans for the modernization, establishment and expansion of facilities, or short-term loans for working capital, are available.

efforts. Large scale inflows of foreign venture and other types of capital helped immensely to modernize Greek industries by forcing the introduction of more advanced techniques and organization. In 1969, capital inflows totalled over \$229 million while during the four years 1967-70, nearly \$1.5 billion of foreign capital investment received licensing approval.<sup>32</sup> (The implementation rate of licensed investment approvals runs about 50 per cent.) Extensive legislative privileges and protection and free access to Community markets promoted industrial investments by firms both outside and within the EEC.<sup>33</sup> Enough foreign investment licenses are currently sought and granted to insure the steady growth and participation of this group in Greek industry.

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<sup>32</sup>Greece 1971: A Rising Industrial Country (Athens: ETBA Public Relations Department, unnumbered). The basic foreign investment regulations appear in Law 2687/1953 which provides that "deposits, capital, profits on capital imported under the law are to be refunded either in the currency of the original investment or deposit or in any other currency into which they could be converted. The laws provisions are applicable to investment considered important for the development of the Greek economy, i.e., primarily investments in industry, mining and tourism." Encouragement of foreign companies to use Greece as a base for company operations occurs in special legislation (Laws 89/1967 and 278/1968). This legislation provides full tax exemption in addition to other benefits to the offices of foreign enterprises which establish branch offices in Greece but which do not do business there.

<sup>33</sup>Security for foreign investment is a matter of intense pride for the government. A Commercial Counselor to the Greek embassy says (in the Bank of Greece Monthly Economic Newsletter, April 1971, p. 4): "Guaranty of foreign investment against any kind of expropriation or government intervention. Guaranty against changes by the administration of negotiated and agreed terms of investment. Irrevocable right for the repatriation of foreign capital, the remittance of profits and interest. Adoption of special tax privileges in favor of certain enterprises dealing particularly with exports. The right of foreign enterprises to employ foreign personnel in executive and technical positions. Enterprises established in Greece with foreign capital, are equally treated to similar enterprises already in operation in the country."

Many investment opportunities exist in tourism facilities, assembly and processing plants which take advantage of relatively cheap labor costs and proximity to markets, shipbuilding, exploitation of mineral wealth and a whole range of import substitution industries involving consumer, intermediate and capital goods. Feasibility studies suggest more specific investment opportunities.<sup>34</sup>

#### EXPORTS AND IMPORTS OF INDUSTRIAL PRODUCTS

Efforts to expand the industrial output of Greece and thereby accelerate the rate of economic expansion, improve the balance of payments and expand employment, must concentrate on the more dynamic branches of industry and must continue to add to foreign sales.<sup>35</sup> Import substitution, although important to the overall effort, is unable by itself to generate the additional foreign exchange needed to close persistent deficits in the balance of payments. This makes the expansion of industry for export particularly important. Also in some

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<sup>34</sup>ETBA studies on Greece Investment Opportunities, Volumes 1-3 (Athens: Hellenic Industrial Development Bank, 1970) suggest that plants manufacturing polyethylene, polystyrene, PVC, acrylonitrile and chemical plants providing sulphur, copper slats and other raw materials or organic agricultural materials would be successful. In addition the clothing industry could expand its knitwear and leather tanning facilities, according to these reports.

<sup>35</sup>The inherent assumption is that foreign markets are necessary to supplement domestic markets. S. B. Linder in Trade and Trade Policy for Development (New York: Praeger Series on International Economics and Development, 1967), p. 5, indicates "That exports can act as a 'super engine' for growth, exerting a leverage effect on the economy many times greater than their direct contribution to GNP." Statements that the price elasticity of demand in developed areas for exports from developing areas may be relatively low need not apply to Greece since it is not subject to as many non-tariff and tariff barriers as most developing areas.

cases exports are necessary if optimum size manufacturing units are to develop.<sup>36</sup>

In the early 1960's, exports of manufactures ran about 1.5 per cent of total industrial output, with only three manufacturing branches exporting over four per cent of their output.<sup>37</sup> Processed furs, chemicals and textiles (mainly yarns and thread) were the biggest export items. Sales in foreign markets were not encouraged, and few, if any export markets existed where industrial products consistently were sold in large volume.<sup>38</sup>

Post-war economic expansions of exports heavily utilized available raw materials. Domestic industries exploited natural resources, such as aluminum, or available raw materials, such as cotton, as a base for initial development.<sup>39</sup> During this time the most dynamic major manufactured export commodities were fixed vegetable oils (SITC 421) and aluminum (SITC 684), although a wide variety of other goods

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<sup>36</sup>The benefits of large-scale operations present an attractive case for economic cooperation among LDC's smaller nations. Since the economies of scale are not unlimited, it is important to decide the number of plants and their scale of operation in a given industry necessary to secure maximum economies; for example, cement which is used in large amounts in power installations, housing, construction, flood control, irrigation and port facilities in Greece is subject to large economies of scale according to the United Nations (in Formulating Industrial Development, Bangkok, 1961, p. 46). Costs of production per ton decreased almost 40 per cent when output increased from 50,000 tons to 900,000 tons. Where exports are involved, however, one must not over-expand if high transportation costs are involved.

<sup>37</sup>George Koutsomaris, The Morphology of Greek Industry (Athens: Economic Research Center, 1965), pp. 92-94.

<sup>38</sup>Triantis, op. cit., p. 141.

<sup>39</sup>"Economic Development in Southern Europe," United Nations Economic Bulletin for Europe, No. 2 (1969), p. 52.

also were exported in small amounts. The sphere of manufacturing, as well as manufactured exports, was very small.

The most impressive evidence of progress in industrial expansion is the growing role played by industrial exports. These now account for almost 40 per cent of total exports compared with only 10 per cent five years ago. (Table 5-6) Modernization and increased

TABLE 5-6  
RATIO OF INDUSTRIAL TO TOTAL EXPORTS

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1965	10.2%
1966	14.0
1967	18.0
1968	23.2
1969	32.6
1970	38.3

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Source: 21st of April, p. 27.

productivity assisted this structural change in spinning and weaving, cement, wine and other beverages, and fruit, vegetable and juice processing industries. The introduction of new large plants in the metallurgical and chemical industry, producing aluminum, free nickel, dead burnt magnesite, anti-knock compounds, etc., provided significant assists. Exports in excess of \$100 million came from these latter industries in each of the last two years. The expansions of industrial effort continued after the 1967 coup, initially by maintaining its newer markets and ultimately by opening up new ones. Today additional ability exists and greater incentives are provided to influence exports (and imports) of manufactures in Greece.

Tables 5-7 and 5-8 give information on the balance of trade and export-import ratios in selected manufactures. Table 5-9 presents the distribution of manufactured exports by commodity groups.

Since 1965 a substantial amount of export specialization developed in textiles, metallurgical, transportation equipment and leather goods industries. In a number of traditional consumer and intermediate goods industries, Greece is self-sufficient and seeking new or additional export outlets. Food and beverage products, processed tobaccos, textiles, some clothing and footwear, wood and furniture, leather and non-metallic minerals fall in this category.<sup>40</sup> Manufacturing, mining and handicraft concerns exporting a significant portion of their output receive special benefits under development guidelines.<sup>41</sup> The increased needs of local processing and manufacturing concerns is forcing declines in the export of raw materials and semi-finished items.

Imports continue to provide over one-third of domestic manufacturing needs, the share being considerably higher in transportation equipment, base metals, machinery and chemical products. The increased availability of investment funds also raises domestic demand for many intermediate products and capital goods. Although some import substitution takes place, it has not yet made a substantial dent in the market for such goods.

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<sup>40</sup>Foreign Trade, 134, No. 5 (October 10, 1970), p. 22. Many of these products (including textiles, electrical appliances and wood products) recorded an absolute decrease in imports in recent years.

<sup>41</sup>They pay reduced taxes, social insurance premiums and interest rates according to the percentage of sales which are exported.

TABLE 5-7

TRADE BALANCE BY MAJOR MANUFACTURING COMMODITY GROUPS  
(million dollars)

	1953-1957	1958-1962	1963-1967	1968	1969
TOTAL MANUFACTURES:	-190	-402	-615	-771	-813
Textiles	- 21	- 24	- 32	- 34	- 30
Clothing, footwear, leather	- 1	--	4	8	10
Wood and wood manufactures	- 13	- 16	- 44	- 5	- 4
Pulp, paper and printed matter	- 10	- 15	- 11	- 15	- 14
Rubber manufactures	- 5	- 8	- 11	- 15	- 14
Chemicals	- 24	- 48	- 93	- 93	-112
Non-metallic mineral manufactures	- 1	- 5	- 9	- 11	- 10
Base metals	- 24	- 45	- 55	- 70	- 43
Transport equipment	- 33	-129	-133	-292	-328
Machinery (including electrical)	- 58	-112	-231	-293	-328
Unspecified items	- 4	- 5	- 8	- 37	- 36

Source: Computed from OECD Statistics on Foreign Trade, Series B.

TABLE 5-8

EXPORT-IMPORT RATIOS FOR MAJOR MANUFACTURES  
(values in parenthesis are import-export ratios)

	1953-1957	1958-1962	1963-1967	1968	1969
TOTAL MANUFACTURES:	7	5	8	11	17
Textiles	9	13	25	31	43
Clothing, footwear, leather	15	88	(56)	(60)	(66)
Wood and wood manufactures	1	2	6	7	14
Pulp, paper and printed matter	4	5	6	6.5	10
Rubber manufactures	--	1	4	3	7
Chemicals	19	13	8	25	22
Non-metallic mineral manufactures	81	17	19	25	41
Base metals	5	3	19	39	68
Transport equipment	--	--	0.2	0.4	0.5
Machinery (including electrical)	--	--	--	0.8	1.5
Unspecified	1	2	3	14	18

Source: Computed from OECD Statistics on Foreign Trade, Series B.



TABLE 5-9

DISTRIBUTION OF MANUFACTURED EXPORTS BY MAIN COMMODITY GROUPS  
(expressed in percentage terms)

	1959	1965	1967	1968	1969
A. Processed Foods	43	37	30	28	19
B. Resource Based	15	17	35	32	29
C. Chemical and Synthetic Fibers	24	10	10	16	13
D. Manufactured Goods	6	15	13	12	13
E. Capital Goods	9	19	9	7	24
F. Petroleum Products and Miscellaneous	3	2	3	5	2
TOTAL VALUE (million dollars)	\$25	\$69	\$158	\$189	\$247

Category A: SITC 4 + 053 + 055 + 112.

B: SITC 211 + 283 + 68.

C: SITC 5 + 266.

D: SITC 65 + 841 + 821 + 831 + 851.

E: SITC 67 + 7 + 69 + 812 + 86 + 891 + 897.

F: SITC 332 + 862 + 863 + 892 + 897.

Local industries still enjoy substantial protection (Table 5-10) and countervailing duties on imports can be introduced if necessary to counteract subsidies given to foreign made products.<sup>42</sup> Government procurement policies give preference to domestically produced goods and "buy Greek" campaigns promote limited imports of consumer manufactures.<sup>43</sup>

Greek industries most likely to prosper under freer international competition are those which process domestic materials (especially if significant savings in transportation costs follow processing); those industries based on domestic raw materials sources, such as aluminum products; those where transportation costs to foreign markets are small; and those which have high labor and low materials requirements. Such industries include food processing, preserving and canning, cotton, textiles, chemicals based on resins and olives, and shipbuilding. In addition, application of the CXT will benefit wood, paper, basic metals, electric and transportation equipment industries and others which rely heavily on raw materials imports currently subject to high domestic import duties (from which they receive little, if any, relief). This means that these industries will face lower materials costs in the future, allowing an improvement in their competitive positions.

Success in expanding manufactures exports primarily represents the success of vigorous domestic measures and preferential access to

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<sup>42</sup>Law 22/1969 assures Greek industrial products of equal competitive conditions with foreign products in the domestic marketplace.

<sup>43</sup>"Establishing A Business in Greece," Overseas Business Reports, 7-46. Also see The New York Times, January 15, 1971.

TABLE 5-10  
COMPARATIVE TARIFF RATES, SELECTED PRODUCTS  
(percentage as of January 1, 1969)

COMMODITY	GREEK TARIFF	CXT
Cotton cloth	35-45	15-19
Woolen cloth	40	16-20
Synthetic cloth	60-70	19-21
Worked cowhide	40	9-10
Worked goathide	40	7-10
Paper for newspapers and paper	36-38	14-15
Brown paper	25	19
Iron bars	21	10
Iron tubes and pipes	32	14
Steel and iron plates	25	10
Electric refrigerators	56	13
Electric stoves	52-61	19
Electric lamps	125-176	15
Aniline paints	38	17-20
Beer	315	30
Cement	27	8

Source: The International Customs Journal, Number 20 (8th Edition),  
Greece.

a major market. Successful promotion requires sound judgments (which sometimes are easier to come by for smaller countries aware that their abilities are limited) and vigorous and imaginative government action. "It requires market research, strong foreign commercial representation, quality control, some degree of internal competition, provision of export credit and insurance and temporary subsidies to new exports."<sup>44</sup> Greece actively seeks to fulfil all these requirements. Its policy efforts are aimed at moving the economy towards them as rapidly as possible.

#### INDUSTRIAL DEVELOPMENT: GREECE AND THE EEC

As stated before, the Athens Treaty is a foreign trade agreement, establishing among other things preferential access for Greek products in Community markets. For it to be successful, Greece must build up its exports to the Six to insure a favorable or closer to favorable balance between them. In 1961, imports into Greece from the Community were valued at more than three times that of Greek merchandise received in the Six. Adding invisibles lowered the ratio to 2:1.<sup>45</sup> During the last decade, EEC imports of Greek products increased substantially. In the early sixties agricultural products registered most of the increase but by the end of the decade, such products began to decline in relation to chemicals and manufactures.<sup>46</sup> No agreement

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<sup>44</sup>Zolotas, Monetary Equilibrium and Economic Development, op. cit., p. 168. Many Greek government incentive programs are discussed in some detail above.

<sup>45</sup>Triantis, op. cit., p. 174.

<sup>46</sup>In 1961, agricultural products were 64 per cent of total exports; in 1965, 73 per cent; but by 1969 they fell to 55 per cent.

can prosper indefinitely under such deficit conditions, although in this recent period much of the expansion in Greek imports reflects extensive development needs. This may mean continued balance of payments support by EEC nations until Greece is economically stronger.<sup>47</sup>

The EEC-Greek Treaty involves more than a mere strengthening of commercial and economic relations between the parties concerned. It also assists the Greek development process in reinforcing favorable trends or creating new ones by opening up wider markets and/or by forcing the realignment and reorganization of the industrial structure along more competitive lines. To this latter end, the Community provides for economic and technical backing along with its private investment assistance for industry. However, the Community's initial efforts fell far short of its stated Treaty responsibilities with its contribution to technical and economic aid negligible and its financial assistance confined to a few sectors and to less than one-half the amount promised.<sup>48</sup>

United States and Japanese businessmen stand to gain by the Treaty. Most Greek entrepreneurs have insufficient capital, managerial ability and technical resources at their command to undertake projects

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<sup>47</sup>These considerations are dealt with more fully in the next chapter on the balance of payments.

<sup>48</sup>The European Investment Bank was unable to make loan funds available to Greece after the 1967 coup--however, even before that, its rigid operating procedures prevented less than half the amount promised in Protocol 19 to be made available. The sum provided strictly for industrial projects was only \$16 million. Considerable private investment and technical aid is contributed by member nations on a non-Community basis, especially from France and Italy.

fully exploiting its easy entry to Community markets. United States and Japanese businessmen do control such resources and are seeking easy and free access to the EEC, since the easiest way to sell goods in the EEC is to make them there. United States investments are already substantial while Japanese interests are expanding rapidly.<sup>49</sup>

Greece's position vis à vis other areas granted preferences by the EEC is stronger for industrial and handicraft items than for agricultural ones. Greece receives full removal of tariff duties for its industrial and handicraft products entering the EEC.<sup>50</sup> Within Greece tariff protection on EEC industrial products ends in 1984 except in cases designated by the Community.<sup>51</sup> At present import duties on these goods are 20 per cent lower than 1962 rates. Greek products will continue to receive protection after 1984 from third country competition in accordance with CXT schedules. Turkey is the only nation to receive concessions close to this from the Community (Table 5-11)

Moreover, newly manufactured products not previously produced in Greece are encouraged by special provisions in Article 18. Duties up to 25 per cent ad valorem can be freely levied on such items up to November 1, 1974. Association Council approval is necessary after that.

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<sup>49</sup>The EEC view Japanese investments in Greece with a very wary eye, especially in the case of steel. The Economist, July 18, 1971, p. v. United States investments during the period 1954-69 amounted to \$210 million or 49.7 per cent of total foreign capital inflow.

<sup>50</sup>Specifically it involves all those that are not covered in Annex II of the Rome Treaty.

<sup>51</sup>This introduced the possibility that some items may continue to receive preferential treatment after full membership. This is particularly important for those industries not yet past the "infant stage". See below, Chapter VII.

TABLE 5-11

EEC INDUSTRIAL CONCESSIONS TO SELECTED NATIONS<sup>1</sup>  
(February 2, 1971)

	GREECE	TURKEY <sup>2</sup>	MOROCCO/TUNISIA
Rate of reduction of the CXT duties (general system).	100% for all products	100% for all products	100% ( <sup>3</sup> ) for all products including crude petroleum
Products attracting a lesser rate of reduction (special system)	--	(a) made up carpets (58.01A) = 25%/cotton yarn (55.05)/ and other woven fabrics of cotton (55.09) apart from the quota ( of 25%). (b) some processed agricultural products covered by Article 14 Annex 6 of the additional Protocol = 75% of the fixed component.	--
Products not covered by the agreement	--	Processed agricultural products with the exception of those under (b) above.	Cork and articles of cork
Products subject to tariff quotas	--	Cotton yarn (55.05) = 300 tons at 75%/ other woven fabrics of cotton (55.09) - 1,000 tons at 75%; refined petroleum products = 200,000 tons at 100%.	--

TABLE 5-11 (cont)

	SPAIN	ISRAEL
Rate of reduction of the CXT duties (general system)	60% <sup>4</sup> (with the possibility of 70% on January 1, 1974) for all products	50% <sup>4</sup> for all products
Products attracting a lesser rate of reduction (special system)	Products covered by Article 5 of Annex I of the Agreement = 40%	Products covered in Article 2 of Annex I of the Agreement = 28-34%
Products not covered by the agreement	Processed agricultural products (List A of Annex I of the Agreement)	Processed agricultural products (List A of Annex I of the Agreement)
	Products in List B of Annex I of the Agreement	Products in List B of Annex I of the Agreement
Products subject to tariff quotas	Other woven fabrics of cotton = 1,800 tons/ refined petroleum products = 1,200,000 tons	Other woven fabrics of cotton = 300 tons

Source: European Parliament Working Documents, #246, p. 10. Notes: (1) Industrial products are those covered by Annex II of the Rome Treaty. (2) The system resulting from the Additional Protocol to the Ankara Agreement. (3) As soon as the agreements come into force. (4) Final rate of reduction.



Another benefit (provided by Article 52) classifies Greece as an area "in which the standard of living is unusually low" or "harassed by underemployment". Under such conditions Article 92 of the Rome Treaty sanctions government aid through direct or indirect subsidies for products promoting economic development.

To remain competitive once these limitations are removed, Greece must selectively determine which industries it will foster over the next decade. Competitive advantages, with respect to changing factor availabilities and world demand and the promotion of technical research and sound financing, must apply. Ultimately the pattern of investment determines this. Industrial investments in the early years of the Treaty were deficient because of a lack of domestic and foreign initiatives. Incentive legislation helped correct this by establishing larger depreciation allowances, better credit facilities, less bureaucratic red tape and more tax rebates, discounts and exemptions.

The drive for export orientation of industrial enterprises receives encouragement from the association through extensive tariff reductions in the EEC for Greek industrial products, i.e., through trade preferences. Readjustment of production processes, if not the use of new processes altogether, may also occur as additional EEC competition ensues. Any unions with the EEC necessitate modernization and may mean forsaking some customary handicrafts, quaint customs, hand labor and small family enterprises. However, in losing some of its unique identity Greece can come to enjoy the higher standard of living found in other industrial nations.

The effectiveness of domestic policy and regional efforts is mirrored in the initial success of Greek industrialization efforts; however, constant effort and continual readjustment of policy measures is essential if it wishes to keep inefficiencies from multiplying and enlarging. Outside pressures promote efforts in this direction by providing competitive pressures, although the stimulus grows weaker as diversification proceeds and membership gets closer. Therefore, sound decisions with respect to economic resources will be no easier to make over the next decade.

#### PERSPECTIVE ON GREEK INDUSTRY

It is unlikely that Greece will ever be a major industrial base; however, this need not hinder its development of a broad industrial base. Industrialists in Greece face the problems common to many areas: small size operations, poorly integrated labor markets, limited experience in management and marketing methods, lack of storage and handling facilities, limited studies on potential industrial projects, and, a hesitancy to undertake new areas of production. Government schemes can continue to help overcome these problems if it provides appropriate tax and other incentive programs, as well as additional power, transportation and infrastructure needs.

Many of the problems associated with the youthful nature of Greek industry can be overcome by time and additional investments. This is particularly true for the development of integrated production units to replace heavy imports of raw materials and capital goods. Efforts to promote mergers, thereby creating fewer, stronger companies

with better equipment, higher technical capacity and more aggressive management, to compete in world markets is common. Some growth occurs without heavy investment expenditures by expanding one-shift operations into multi-shift ones wherever feasible or by substituting more open mass production means for the restrictive output levels often associated with quasi-monopoly positions held by some industries.

Initial reliance on developing internally competitive industries in products where an advantage is afforded by a locally abundant supply of materials, or where transportation costs are initially very high relative to that of the finished products, or where relatively cheap labor is used to provide parts or processing for other manufactured items, is both realistic and economically desirable since such industries are more likely to be competitive in world markets and it minimizes import needs. As individual industries grow a certain amount of industrial clustering is likely, permitting further advances through economies of linkage and scale. For all of this, however, growing incomes are necessary to absorb the increased output of manufactures which results as competitive ability grows.

Handicrafts will likely thrive and advance since they provide a unique product where domestic market consumption predominates, an advantage already exists, and transportation costs are unimportant. Their methods and techniques however must continue to change and adapt as necessary. Merging and increasing use of mechanical equipment may be essential to guarantee satisfaction of additional demands on this sector, especially if labor costs rise. The relatively liberal import policies, institutional reforms, and technical assistance received

through the OECD and the EEC, and the growing awareness that competition from EEC firms is around the corner has already promoted greater competitiveness in Greek production. Continued efforts are necessary, however, in the future.<sup>52</sup>

#### EFFICIENCY AND COST CONSIDERATIONS INFLUENCING GREEK INDUSTRY

Once an economy reaches the decision to industrialize it must determine its industrialization strategy. The easiest part of this complex process is a statement of overall objectives. Difficulties arise in determining any indigenous conditions which might influence the industrialization process, such as the existing level of industrial developments, the skills and availability of human and physical resources, the market size or the prevailing institutional structure. Further difficulties appear in establishing the proper criteria of project costs in a region where natural resources, industrial raw materials, the monetarized area, and energy resources may be extremely limited, and a large part of national income flows through the foreign trade sector.

Extensive research efforts, suggesting empirical means of determining the costs (and/or benefits) of industrial activities in developing areas, appear regularly in economic literature<sup>53</sup> and many

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<sup>52</sup>In practice, tariffs are almost invariably an ad hoc response to pressures from the private sector. Even as industry matures in Greece, structural changes will be necessary. It is at this point that particular effort is crucial if such pressures are to be overcome.

<sup>53</sup>General studies of this sort include: Manuel of Industrial Project Analysis in Developing Countries, two volumes (Paris: OECD Development Centre, 1968-1969); H. B. Chenery, "Development Policies and Programmes," Economic Bulletin for Latin America, 3, No. 1 (March 1958), pp. 60-72; ECAFE, Formulating Industrial Development Programmes,

concepts introduced in these writings are making their way into established terminology and theory. These efforts are certainly praiseworthy and necessary; however, our concern lies with less technical and more mundane cost considerations. Major inefficiencies, and therefore higher costs, can result from the choice of an inappropriate technology, product mix, degree of international specialization or customs protection (or by government policies influencing these things). The resulting inefficiencies tolerated in a nation's production methods can seriously handicap its long-term growth efforts as well, even if precise measurement of such effects are not possible.

Industrial inefficiency slows down the expansion of GNP. In the early stages of industrialization slowdowns may be inevitable, with the losses worth paying as long as they are temporary.<sup>54</sup> But in time these newly established enterprises must be capable of functioning with a higher degree of efficiency in world markets if resource reallocation in these areas is to be continued without protection. The

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<sup>53</sup>(cont.) Volume I (Bangkok, 1961); M. Bruno, "The Optimal Selection of Export-Promoting and Import-Substitution Projects," in Planning The External Sector, United Nations Report of the First Inter-regional Seminar on Development Planning (Ankara, Turkey, September 1965), pp. 103-107; and Donald C. Mead, "Effective Protection and Investment Criteria," Eastern Africa Economic Review, No. 17, pp. 65-69. More specific references include N. Islam, "Comparative Costs, Factor Proportions, and Industrial Efficiency in Pakistan," The Pakistan Development Review (Summer 1967), and K. N. Raj, Some Economic Aspects of the Bhakra Nangal Project (London: Asia Publishing House, 1960).

<sup>54</sup>Harvey Leibenstein, "Allocative Efficiency versus 'X-Efficiency'," American Economic Review, 56 (June 1966), p. 392, reviews studies where a "welfare loss" was calculated in terms of gross or net national product attributed to resource misallocation. In all these studies the contribution of reallocating resources turns out "to be exceedingly small."

importance of these considerations to our overall study justifies an exploratory look at several questions especially useful in developing an evaluation of the industrial effort and environment of Greece.

Four major questions categories are raised and the Greek responses to each briefly examined in the remaining part of this chapter.

CATEGORY I: TECHNOLOGY AND EFFICIENCY: What elements influence the choice of technology? Can this choice be improved by a change in emphasis (say to smaller scale operations or to more labor intensive methods)? Are any efforts expended to improve productivity by fuller use of existing facilities? Can technology expand to incorporate domestic research efforts or needs?

In Greece new industrial efforts outside the handicraft sector incorporate essentially the latest technological innovations available to advanced nations. The result is high productivity in these industries, but little stimulation to employment. The slow population growth and the rapidly expanding services sector minimize the need at present for employment stimulating technologies. This often is an item of utmost consideration, however, in other developing regions.

The heavy influx of foreign capital in industry encourages the use of scientific and technological capabilities far above the average existing in other sectors. Consequently, even though its cost and price structure is unfavorable for export production of many traditional industrial or manufactured items, local industries are able to offer increasing amounts of new types of manufactures for export. Secondary effects bouncing off from this also encourage technological innovations in traditional sectors. The close contact with other OECD

nations guarantees fairly rapid assimilation of technological and scientific advances into the Greek economy.<sup>55</sup>

Substantial excess capacity characterizes most manufacturing industries in Greece following their introduction. Two or three years are necessary to fully overcome this. During that time, additional workers are trained, markets opened up and shifts added. The proper complementarity of processing machinery is also completed. This lag in full use of facilities generally leads to lower costs as capacity operations are reached.

An area where Greece adapted its indigenous abilities to technical considerations was in the judicious use of older equipment. High returns accrued by promoting the use of second-hand equipment in its shipping industry. Through this its shipping industry was able to resume its position as one of the world's largest. Similar adaptation of technology to local conditions appears in the handicraft sector where the design and use of mechanical aids assists productivity gains and stimulates local adaptation of technology.

Limited resource endowments and foreign exchange earnings forced greater awareness in Greece of the need for efficient resource use. As Triantis stressed, there are few resources to waste, so a concerted effort must be undertaken to see that what is available is used in its most desirable way.<sup>56</sup>

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<sup>55</sup>A study entitled Gaps in Technology: Comparisons Between Member Countries in Education, Research and Development, Technical Innovations, International Economic Exchanges (Paris: OECD Publications Centre, 1970) indicates how the transferral process works.

<sup>56</sup>See Chapter I above.

CATEGORY II: THE PRODUCT MIX: What determines the product mix? Can it be improved by additional emphasis on consumer goods, or durable goods or intermediate and heavy capital goods?

The product mix in Greece was influenced by its outward looking strategy and its close ties to the European Community and other OECD nations. Very little emphasis on heavy industry developed except where natural resource endowments dictated it, as in certain metallurgical industries. The assurance of steady supplies of steel and heavy capital equipment from the EEC permitted Greece to concentrate on fewer new areas of production.

Manufacturing production in Greece stresses processing and finished products, with many intermediate stage items imported, although production of consumer goods began expanding in the late sixties. Processed goods and native handicrafts are produced and consumed locally in substantial amounts, but such goods as ready-made clothes, toasters, refrigerators, automobiles and air conditioners must come from external sources. Also purchased abroad are heavy capital equipment needed for power production, road and irrigation facilities, etc..

The relatively limited production of consumer goods and consumer durables which takes place puts further pressure on the balance of payments, especially as incomes grow and consumers are able to implement demands for such items. Recent manufacturing starts, both domestic and foreign reflect this need.<sup>57</sup>

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<sup>57</sup>Several recent investments reported in Foreign Economic Trends, ET-136, included baby food, knitwear, sewing machines, electrical appliances and processed foods.



Another area of greater emphasis is capital goods production. Once again success hinges essentially on developing its export capacity. Greece's relatively easy access to Middle East and East Asian markets puts it in a central distribution position for such items, although exports of such items are not significant at this point. Development of capital goods geared particularly to the local environment is almost non-existent because of the ease in adapting to technologies found in more advanced nations. Output of agricultural and textile machinery, as might be expected, are the major areas of capital goods production other than shipping. A number of metal capital items, which require small production runs or which must be built to individual specifications, are also produced. However, the important thing at this point is not necessarily quantity, but quality and the chance to show its abilities. From this will come additional market opportunities.

Reliance on foreign markets as a major sales outlet allows greater diversity in the overall production mix than one limited to an internal market.<sup>58</sup> It also helps focus attention on linkage possibilities and areas where additional investments are desirable as the domestic market develops. Investment appears to complement demand rather than taking place in isolation. This leaves resources free which would otherwise be used for marketing purposes, i.e., they do not have to create a demand, but a product, since the demand is already there.

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<sup>58</sup>Angus Maddison, Economic Progress and Policy in Developing Countries (New York: W. W. Norton and Company, Inc., 1970) and UNIDO (Vienna) Monograph of Industrial Development, No. 19, ID/40/19.

CATEGORY III: INTERNATIONAL RELATIONS: What sort of international specialization was undertaken? Was too much emphasis placed on import substitution or export expansion? What sort of protection is employed? What sort of international cooperation fostered? Could a more open economy stimulate greater efficiency?

The usual situation one hears about in a developing nation with regard to international trade and specialization is its reluctance to open up its economy and remove tariff barriers, or its difficulty in finding foreign markets for its manufactures.<sup>59</sup> Yet in Greece a phenomenal expansion of manufactured exports occurred, stimulating its overall progress. There, the outlook is one of export expansion and reduced tariffs.<sup>60</sup> This outward-looking orientation allows more emphasis on the quality and the direction of its industrial expansion. As a result less emphasis is placed on the absolute magnitude of industry that results.

Investments in physical and human capital are designed to have a permanent impact on subsequent growth. The threat of potential competition forces more technically efficient methods and resource scarcity guides the selection of industries, spurring the adoption of industries exhibiting greatest potential advantage. Little of the pessimism found in other developing nations about its ability to sell manufactures in outside markets is evident--primarily because of its preferential access to EEC markets.

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<sup>59</sup>Ibid.

<sup>60</sup>Decreased tariffs usually substitute greater industrial efficiency, not greater imports by introducing competition where none previously existed. See Maddison, op. cit., p. 173.

Its involvement with the EEC encouraged Greece's development of an outward, rather than inward, orientation. Their association removed the traditional reluctance to lower customs duties and made available preferential access to Community markets. Preferential access encouraged the growth of industries not already predominant in Community markets and investment funds from non-member countries seeking an easy trade opening with the Community.

Confidence in a free market system assisted in the Greek export expansion since appropriate price-cost information was available from the outset and greater clarity of cost assessment possible. Investment risks, although greater under this orientation, were more easily appraised. Often short-run balance of payments considerations push nations into an inward-looking direction. A feeling that interdependent industries generate economies of scale and markets for each other's goods reinforce such pressures. These linkages are also assumed to provide the reinforcement mechanisms needed for self-sustaining growth.<sup>61</sup> Under such policies an autarkic philosophy often develops, discouraging a less rational policy of resource use, since outside costs and prices tend to be ignored. Export expansion, however, necessitates more competitiveness and greater emphasis on continuity in production--both being conducive to more efficient resource use.

Once the decision to industrialize is made, regardless of inward- or outward-looking emphasis, no explicit rules or regulations can guide a nation to the appropriate avenue of success. In

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<sup>61</sup>Another problem is that this strategy neglects the older industries, with investment concentrated in new lines of production.

agriculture, on the other hand, the climate and soil conditions strongly determine areas of specialization. Too often, as industries mature, the formation of monopolies or vested interests retard what originally began as a dynamic adjustment to prevailing conditions. Gradually, protection (perhaps in altered form) and inertia creep back into the industrial sector, discouraging necessary readjustments in production, and fostering inefficiencies. This may well occur in Greece after it achieves full Community membership.

CATEGORY IV: ADJUSTMENT MECHANISMS: Can the economy adjust to new perspectives easily as changes are warranted?

Government activities can strongly affect whether efforts at dynamic adjustment occur. Through its tax, subsidy and incentives programs, government promotes or hinders the proper reallocation of resources. Examples of both situations are given in the text above under Greek economic policies.

Using domestic policy effectively requires full cognizance of the limitations imposed on the economy by social, cultural and political restraints. The lesson to be learned and appreciated here is that the activities creating a path to development are not always automatic (regardless of the influence of the price system); nor are they mystical in origin. Rather, through the efforts, creativity and drive of a perceptive and disciplined government and market system, changes can be formulated to emancipate growth efforts. Since government policies have such influence (often extending to total planning of an economy) it must examine carefully how it uses its powers. Most of all it must remember that industrialization alone cannot solve all its problems.

## CHAPTER VI: THE BALANCE OF PAYMENTS

### INTRODUCTION

The two previous chapters describe distinct sectors of economic activity. This chapter, however, reflects back on activities in both agriculture and industry in considering the balance of payments position of Greece. The Greek economy because of its outward orientation has an obvious stake in the growth patterns of local and foreign markets. The vitality of its domestic economy depends to a large extent on the strength of its international position. An understanding of this aspect, and its use of economic policies to alter its international position, is essential to our purposes. Consequently our attention now turns to the relation between Greek domestic prosperity and its international balance of payments. In this chapter we will examine the structure of Greek trade, both merchandise and invisibles, autonomous and induced capital flows, and also develop a full growth balance of payments concept similar to a full employment budget notion.

Both adverse and beneficial influences on balance of payments accounts appear as the domestic economy grows and prospers. Structural improvements which move production (and exports) away from concentrating on agricultural products where demand grows slowly and towards industrial exports with more buoyant demands allow greater stability of

prices and earnings.<sup>1</sup> They also set the stage for a more vigorous and expansive long-run advance. However, efforts to revamp and accelerate the economy require a large upsurge in imports of capital goods and raw materials, introducing financial difficulties which may then limit the expansion. Thus in Greece the volume and pattern of foreign trade and investment are closely tied to increased productivity and economic growth.

Triantis recognized the importance of these international accounts, especially in measuring the net effect of the EEC agreement. His fear that the Treaty would hinder bilateral agreements is not an issue primarily because Greece was able to alter its production pattern sufficiently so that it no longer faced large unsalable surpluses in most of its export markets as was so often true when tobacco and poor quality grapes dominated this area. It is true that Greece's dependence on the European Community nations in international trade has grown. But this need not be the disaster Triantis expected unless a widespread depression or a conflict with Community nations occurs. Furthermore, since the EEC enjoyed the greatest expansion in world trade in recent years, it can be viewed as a benefit.

The twenty-two year limit also appears to be an asset, not a liability to the Greek economy by speeding up needed change in

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<sup>1</sup>Greater stability in prices and earnings also results from expanding a nation's minor exports, i.e., items which are "by definition relatively small in the export package of developing countries. The markets for these exports are not well organized internationally, and few developing countries have a dominant position in the trade of these items. Items in this group have widely varying market characteristics." [Barend A. DeVries, The Export Experience of Developing Countries (Baltimore: The Johns Hopkins Press, 1967), p. 10.]

anticipation of greater competition. It is true (as Triantis said) that Greece faces the greatest readjustment in resource allocation, but then initially it exhibited the greatest relative inefficiency. Later circumstances indicate that it is unlikely that Greece could have gained as much by negotiating with the EEC on an individual basis.<sup>2</sup> Its trade with the EEC has shown marked improvement in terms of product diversification and competitiveness and although its deficit is growing so are its future abilities to overcome this deficit, as our analysis below indicates. It seems merely a matter of a short-time before the Greek deficit will begin to decline.

Several aspects worth noting about the international position of the Greek economy are its very large trade deficit, its substantial net invisibles surplus, and its close ties with the EEC. Furthermore, its small size and its heavy linkage with outside forces will continue to tie its future economic growth to the foreign sector with the likely result that ". . . an increment in per capita income of a given magnitude will necessitate more imports and exports and more investment for export, than for a large country."<sup>3</sup> The openness of its economy necessitates that it recognize and act on opportunities to eliminate inefficiencies in production; otherwise, it hinders its future ability to further liberalize its external commerce.<sup>4</sup>

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<sup>2</sup>See accounts of the Israeli situation in European Community reports throughout the last four years.

<sup>3</sup>H. S. Ellis, D. D. Psilos, and R. Westebbe, Industrial Capital in Greek Development (Athens: Center of Economic Research, 1964), p. 25.

<sup>4</sup>It is assumed here that a completely free trade position is the most desirable and advantageous for a nation and the world.

A noticeable improvement in the structural pattern of economic behavior in Greece in the last eight years favorably altered its export trade. A large part of this improvement came with the completion of several large chemical and metallurgical complexes begun in the early sixties (although the contributions of other industrial investments of lesser magnitude cannot be ignored).<sup>5</sup> The marked increase in manufactures exports and further progress in prospect in the next five years is evidence of the nation's insight into its particular economic constraints and its ability to overcome them through enlightened policies.

#### THE BALANCE OF TRADE

The rapid expansion of incomes and the extensive investments undertaken in Greece in the sixties promoted an active import demand which led the dollar value of imports to more than triple between 1960 and 1970. Since 1966, imports have increased at an average annual rate of 8.9 per cent. The major items imported are meat and meat products, consumer manufactures, raw materials, heavy machinery, electrical equipment, motor vehicles and chemicals.

Between 1962 and 1969, import demands for capital goods increased from \$136 to \$419 million (excluding ships), or 208 per cent. Including raw materials imports of another \$199 million in 1962 and

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<sup>5</sup>These allowed Greece to develop a number of smaller industries which export a substantial part of their output, but which are not too significant individually.



\$429 million in 1969, both items grew by 153 per cent. During the same period consumer goods imports increased 104 per cent.<sup>6</sup>

Exports also grew during the period under consideration, almost doubling in value from \$308 to \$429 million. Since 1966 exports increased at an average annual rate of 11.1 per cent. Although exports cover a rather small portion of import demands,<sup>7</sup> the overall favorable restructuring of exports in the last ten years brightens the outlook to improve this ratio in the future. Initially, higher exports came largely from expanded agricultural exports. By 1967, however, non-agricultural exports began to exhibit a growing importance and by 1970 such exports were larger dollar contributors to total exports than were agricultural items.

Through 1969, import values ran approximately 20 per cent of GNP, while export values were about 10 per cent. The average annual increase in the trade deficit was close to 16 per cent for the years 1968-70, compared to a 10.5 per cent average annual increase anticipated in the 1968-72 Plan. Information on this and on the balance on current account are given in Table 6-1.

Table 6-2 shows that the major portion of Greek imports and exports come from the EEC area (mainly West Germany, France and Italy),

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<sup>6</sup>Greece: OECD Economic Survey (Paris: OECD Publications Center, February 1971), p. 18. Almost all manufactured exports require some inputs of imported goods either in the form of raw materials or intermediate goods. The latter may be directly imported or may be imported raw materials processed into domestic goods. This means that one dollar's worth of exports does not necessarily increase foreign exchange availability by \$1.

<sup>7</sup>The export-import ratio developed a downward trend in the sixties, although since 1966 it held steady in the 35-36 per cent range.

TABLE 6-1

BALANCE ON TRADE AND CURRENT ACCOUNT  
(million dollars and per cent)

	1957	1958	1959	1960	1961	1962	1963
Imports (value)	475.1	491.5	454.8	497.1	561.2	608.5	708.4
Percentage of GNP	21.4	21.1	17.5	16.4	15.3	16.4	18.8
Rate of increase over previous year	2.1	3.5	-7.5	9.3	12.9	8.4	16.4
Exports (value)	222.9	242.8	212.5	208.6	234.3	242.6	295.9
Percentage of GNP	9.0	9.4	7.9	7.3	5.6	6.8	7.9
Rate of increase over previous year	3.7	8.9	-12.5	-1.8	12.3	3.5	22.0
Balance of Trade <sup>a</sup>	-252.3	-248.7	-242.3	-288.5	-326.9	-365.9	-412.5
Rate of increase over previous year	-0.2	-1.4	-2.6	19.1	13.3	11.9	15.5
Export-Import Ratio	46.9	49.4	46.7	42.0	41.7	39.9	41.8
Invisible Receipts (total)	235.7	217.6	237.2	273.2	319.6	379.6	454.3
Tourism	41.5	36.2	41.7	49.3	62.5	76.0	95.4
Shipping	66.6	60.3	60.3	76.5	102.0	108.7	125.3
Emigrant remittances	75.0	76.7	88.6	90.5	107.5	130.1	168.1
Other <sup>b</sup>	52.6	44.4	46.4	56.9	47.6	55.8	65.5
Invisible Payments	49.7	47.7	54.7	65.5	76.1	87.6	99.0
Balance of Invisibles	186.0	169.9	182.5	207.7	243.5	292.0	355.3
BALANCE ON CURRENT ACCOUNT	-63.3	-78.8	-59.8	-80.8	-83.4	-73.9	-57.2
Rate of increase over previous year	--	24.5	-24.1	35.1	3.2	-11.4	-22.6

TABLE 6-1 (cont)

	1964	1965	1966	1967	1968	1969	1970
Imports (value)	831.3	1032.9	1153.0	1161.2	1248.5	1433.6	1704.6
Percentage of GNP	19.8	21.5	21.0	19.2	21.1	22.3	--
Rate of increase over previous year	17.3	24.3	11.6	0.7	7.5	14.8	18.9
Exports (value)	308.4	330.9	403.5	452.6	464.9	530.3	612.3
Percentage of GNP	9.2	9.1	11.4	10.8	9.9	10.3	--
Rate of increase over previous year	4.2	7.3	21.9	12.2	2.7	14.1	15.5
Balance of Trade <sup>a</sup>	-522.9	-702.0	-750.0	-708.6	-783.6	-903.3	-1092.3
Rate of increase over previous year	26.8	34.3	6.8	-5.5	10.6	15.2	20.9
Export-Import Ratio	37.1	33.8	35.0	39.0	37.2	37.0	35.9
Invisible Receipts (total)	479.5	549.4	635.9	662.8	725.7	796.0	947.0
Tourism	90.9	107.6	143.5	126.7	120.3	150.5	194.0
Shipping	147.2	163.8	182.5	214.0	243.0	242.0	270.0
Emigrant remittances	176.8	206.9	235.0	232.1	239.4	277.0	343.0
Other <sup>b</sup>	64.5	71.0	75.0	90.0	123.0	126.0	140.0
Invisible Payments	129.3	136.8	154.6	190.0	199.0	244.0	270.0
Balance of Invisibles	350.2	412.6	481.3	473.0	527.0	552.0	677.0
BALANCE ON CURRENT ACCOUNT	-172.7	-289.4	-268.7	-235.7	257.0	-351.0	-415.0
Rate of increase over previous year	201.9	58.1	-7.2	-12.3	9.0	36.7	18.2

Source: OECD Economic Survey of Greece, 1971. NOTES: <sup>a</sup>Excluding suppliers' credits. <sup>b</sup>Including government services, insurance premiums, interest, dividends, profits, salaries, commissions.

TABLE 6-2

GREEK TRADE BY AREA OF ORIGIN AND DESTINATION  
(in percentage terms)

Year	EEC	Other Industrial Europe	Soviet Area	Japan	United States	Rest of World
Exports to the:						
1953	42.0	23.0	10.0	---	14.7	10.3
1959	39.5	14.3	16.5	---	12.9	16.8
1966	35.5	12.6	24.2	0.6	10.5	26.6
1967	40.4	4.4	18.1	1.8	13.2	22.1
1968	47.6	4.3	15.3	1.5	10.2	21.1
1969	45.1	4.0	16.3	0.9	9.8	23.9
1970	45.7	4.5	16.5	1.3	7.5	24.5
Imports from the:						
1953	44.0	21.0	1.0	---	---	20.3
1959	38.2	20.4	7.4	---	13.7	26.7
1966	41.5	8.8	8.3	3.9	10.8	28.0
1967	44.5	8.7	7.7	2.7	8.4	27.3
1968	43.7	7.4	8.1	4.8	7.7	28.3
1969	41.9	7.1	6.3	6.9	9.5	26.8
1970	40.4	9.0	5.2	12.7	5.9	26.8

Source: OECD Foreign Trade Statistics, Series C.

the United States, Great Britain and the Soviet Bloc. Over the sixties the importance of Greek-EEC trade grew, as did Japanese imports. The major shift in exports was away from the non-EEC European nations and the United States and towards the EEC and the developing areas. The most notable shift in import sources is from the United States toward Japan over the last five years.

In Greece imports often serve as a stimulant to exports. This arises from a combination of factors including the significant imports of foreign technology which are directed to highly capital intensive export industries (such as metals, mines and chemicals); numerous efforts to guarantee export expansion whenever imports increase to offset foreign exchange losses and thereby holding foreign exchange reserves constant;<sup>8</sup> and, freeing up of resources which otherwise would be tied up in the production of import substitutes. This means that higher imports arising from growing incomes help to eliminate excess capacity (where such exists) and to expand investment in the export industries. To accomplish this the government resorts to diverse measures to speed up responses to free market forces. The relatively unchanged terms of trade over the decade under study reflect a response to changing profit opportunities and a flexibility and adaptability of resources uncommon in many developing nations.<sup>9</sup>

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<sup>8</sup>One of the many detrimental effects of persistent deficits in the balance of payments is an undermining of confidence in the nation's economy through the depletion of foreign reserves. These reserves serve the dual purpose of meeting fluctuations in international accounts and strengthening the national currency base.

<sup>9</sup>For specific information about the terms of trade for Greece see International Financial Statistics, XXV, No. 3 (March 1972), p. 156.

The subtle and not-so-subtle efforts undertaken by the government both encourage exports and discourage imports. The stress generally is on opening up the economy with import substitution efforts concentrated in the agricultural and raw materials sectors. Consumer imports are discouraged by administrative controls such as delaying import authorizations or licenses, requiring prior deposits of duties, and the elimination of financing and installment credit for foreign produced goods.<sup>10</sup> Outright restrictions on consumer manufactures to save foreign exchange are considered bad publicity and therefore are not employed. Since consumer manufactures have increased no more rapidly than other types of imports, they do not seem warranted at this point. The relatively free import policies in Greece initially began to keep domestic prices stable after the significant devaluation of 1953. Since then, freer trade policies generally are in deference to the EEC agreement and development needs.

Exports are important to the diversification efforts in Greece. They receive benefits from numerous policies to encourage their expansion including a Credit Insurance Fund which insures Greek exports against political or economic risks not covered by ordinary insurance and a unified program for procurements by the State and public organizations.<sup>11</sup> It also includes subsidized interest rates on export

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<sup>10</sup>Several voluntary attempts to hold down imports also exist, the most notable is by the Automobile Importer's Association which held 1971 imports at the 1970 level.

<sup>11</sup>Two Years of Development (Athens: Ministry of Coordination Public Relations Department, 1970).

financing, tax exemptions and reduced taxes and fast depreciation write-offs for industries exporting a large percentage of their output.

#### BALANCE ON CURRENT ACCOUNT: THE INVISIBLES

The vigorous growth of invisible receipts relative to payments between 1965 and 1970 left the balance on invisibles with a growing net surplus. These foreign exchange earnings, originating chiefly from higher shipping and emigrant's remittances and tourism receipts, helped offset the unfavorable balance of trade and left the deficit on current account much smaller than might be expected.<sup>12</sup> (Table 6-1) The ability to cover a large portion of imports with these earnings bears materially on the future of Greek prosperity.

Invisibles earnings are traditionally an important source of foreign exchange. Since the early fifties, one-third or more of commodity imports were covered by them and their importance relative to export earnings has increased in the last twenty years.<sup>13</sup> Since the invisibles are a relatively stable source of foreign exchange, the government has not dealt as dramatically with the trade deficit as it might otherwise have.

Emigrant's remittances are the largest source of invisibles earnings; most come from the United States, Canada, the Sterling Area and the EEC. Two-thirds of the funds are from permanent emigrants, the

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<sup>12</sup>In 1970, for example, invisibles earnings covered almost 40 per cent of total imports and exports financed 36 per cent. The remainder was covered through capital inflows.

<sup>13</sup>Xenophon Zolotas, Monetary Equilibrium and Economic Development (Princeton: Princeton University Press, 1965), p. 131, Table 51.

other third primarily from temporary emigrants to West Germany.<sup>14</sup> The increasing predominance of emigrant movement to the European Community adds to the close ties Greece shares with the region, but also adds to the uncertainty of these earnings. This is because the repercussions of a recession in EEC nations are most rapidly felt by the foreign worker.

Shipping remittances tripled over the last decade. They include passenger and freight charges for using Greek-owned transportation; merchant seamen's remittances; shipowner's remittances for family or business operation's support; shipping taxes (which are quite low to encourage ships to fly the Greek flag); ship repairs, and airplane and ship supplies purchased in Greece.

During the sixties merchant shipping received government assistance in the form of infrastructure expansion to promote ship construction and repairs, marine insurance, telecommunications and training facilities. The recent unprecedented expansion of tonnage registered under the Greek flag was a result of these measures and various tax incentives. Among other responses to these incentives were more new vessels added to the fleet, increased jobs for seamen (from 36,547 in 1966 to over 50,000 in 1971), increased foreign exchange earnings, modernized and expanded shipbuilding and repair facilities for light- and medium-sized vessels, expanded communication links and

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<sup>14</sup>Permanent and temporary Greek emigrants to West Germany now total over 200,000. The revaluation of the German Mark in recent years presented Greece with a special gift since over half of its remittances are in that currency.



shipping agencies, added facilities for nautical education and the introduction of a marine insurance and credit system.<sup>15</sup>

Tourism has also expanded in the last fifteen years. Most tourists come from the United States,<sup>16</sup> the United Kingdom, and the European Community. There is every reason to expect further rises in tourist arrivals and expenditures in Greece, given the buoyant nature of consumer demands for this item. The low cost of living and the increased mobilization of resources for tourist facilities are proven assets in attracting foreign visitors.<sup>17</sup> In Greece private initiatives are relied on to establish these facilities with government's role geared to easing transportation difficulties, improving historical sites, providing information about the nation and establishing investment incentives. The most serious internal threat to the stability of tourism receipts is political upheaval, which at this writing does not appear imminent. (Table 6-3 shows tourist growth.)

The high rate of increase in invisible receipts was immensely helpful to Greece in the last ten years. No doubt they will continue

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<sup>15</sup>21st of April, op. cit., pp. 66-68. Transfers of ships to the Greek flag and the establishment of shipping company offices in Greece also increased substantially under the government's incentive programs. As a result shipping remittances in 1971 rose much more rapidly than the 10 to 12 per cent experienced in the last several years. See The Economist (July 31, 1971), p. xvi.

<sup>16</sup>Foreign Economic Trends, ET-136, reports that approximately 61 per cent of Greek tourist receipts and 38 per cent of its emigrant's remittances are from United States citizens.

<sup>17</sup>Tourism in OECD Member Countries, Report adopted in July 1970 by the OECD Tourism Committee (Paris: OECD Publications Center, 1971).

TABLE 6-3  
NUMBER OF TOURISTS  
1955-1970

YEAR	NUMBER
1955	195,900
1956	206,000
1957	250,300
1958	254,300
1959	301,800
1960	343,900
1961	440,200
1962	541,600
1963	672,900
1964	673,600
1965	846,900
1966	997,600
1967	970,349
1968	1,017,621
1969	1,305,951
1970	1,484,632 (through October)

Source: Statistical Yearbook of Greece, 1960 and 1971

to provide essential assists in the future; however, it must be recognized that they are not directly, nor easily, controlled by domestic forces.<sup>18</sup> Nevertheless, the substantial rate of increase in invisible receipts evident in the period under review indicates their dynamism and encourages an optimistic outlook, provided the nation is aware of possible future fluctuations.

#### EXTERNAL FINANCE AND THE BALANCE OF PAYMENTS

The large trade deficit, which is cut substantially by earnings from invisibles, must meet its additional foreign exchange needs from external financing--either from private capital inflows, government borrowing, foreign grants or aid. Greece's ability to finance imports with its invisibles earnings and private capital flows, i.e., its ability to establish a self-sustained balance of payments equilibrium, necessitates this.

The rosy economic situation, relative political stability (except in the 1967-68 early coup years), the EEC association and the attractive benefits granted foreign investors by legislative decrees were the major factors leading to a fairly substantial inflow of capital into Greece in the 1960s.<sup>19</sup> Inflows primarily took the form of

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<sup>18</sup>The growth rate of such receipts is quite sensitive to economic, social and governmental factors, as well as to changes in the growth rates of disposable personal incomes and prices in Greece and abroad. A new military coup or civil war could eliminate tourist receipts overnight or a recession abroad could lead to a slower decline.

<sup>19</sup>In the early sixties the flow of capital into Greece was modest. Its slowness was in part due to the usual fear of government controls, political insecurity or high risk, but also a lack of demand. (Zolotas, *op. cit.*, p. 212.) By 1965 no lack of demand was evident and other risks were minimized through government guarantees.

private capital funds derived from repatriated Greeks investing in real estate,<sup>20</sup> private capital funds for business development or expansion, and private and public funds entering the nation on behalf of the government such as consortium and World Bank loans.

Historically Greece faced chronic balance of payments deficits; during its development years (1960-1970), its deficits became more pronounced. The goal of the government, therefore, was to continue to relieve the immediate balance of payments constraint on Greece without drawing down its reserves. After the political upheaval and the cancellation of the EIB commitment in 1967,<sup>21</sup> few long-term investment funds were available for this purpose. The IBRD and the IFC eased the country's immediate needs with several loans in 1968.

An appropriate environment for additional foreign investment was recreated with the return of political stability and rapid economic expansion beginning in mid-1968. The usual hesitancy found in advanced areas towards investment in developing ones (except in special fields such as petroleum), was overcome by Greece's buoyant economy, and by its legislative and other assistance to entice firms through attractive incentive programs.

Today the bulk of the financing for the deficit comes from private capital inflows. Greater confidence by foreign finance and business circles towards the stability and dynamism of the Greek economy contribute to this. Funds attracted under Laws 89/1967,

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<sup>20</sup>OECD Economic Survey, *op. cit.*, p. 20. These cover roughly one-fourth of the current account deficit.

<sup>21</sup>See below, Chapter III.

2687/1953 and 378/1968,<sup>22</sup> financed almost two-thirds of the 1970 deficit and grew thirty per cent over the previous year's total.<sup>23</sup> Total foreign investment applications approved under Law 2687/1953 between 1953 and 1970 amounted to \$2.7 billion. Almost half of this (\$1.3 billion) was approved after 1968.<sup>24</sup> The actual implementation rate on such approved projects runs close to half of the amount committed, although the dollar value varies considerably from year to year.<sup>25</sup> Foreign capital of this sort was a major contributor to the modernization and progressive restructuring of the Greek economy. In fact, foreign investments in manufacturing and mining generally exceed domestic expenditures on such investment activities.<sup>26</sup>

Private long-term capital flows reached \$244.5 million in 1970, a 56 per cent increase over the previous year and 82 per cent higher than the 1966 figure. The portion of this in long-term venture capital was \$156 million, representing an increase of 96 per cent over 1969 and 126 per cent over 1966 figures for high risk, long-term investment.<sup>27</sup>

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<sup>22</sup>The stated purpose of these laws is to turn Greece into a center of international business activity.

<sup>23</sup>Foreign Economic Trends, ET 71-107, p. 4.

<sup>24</sup>Greece 1971 . . . A Rising Industrial Country (Athens: Ministry of Coordination, unnumbered).

<sup>25</sup>This is becoming less evident as the flow of projects started and completed evens out.

<sup>26</sup>ETBA Investment Guide (Athens: Hellenic Industrial Development Bank, 1967), p. 80. Overseas Business Reports, 70-46, p. 5.

<sup>27</sup>Greece, Economic News, No. 36 (April 1971), p. 4.

Suppliers' credits met 26.3 per cent of the 1970 deficit, grants and loans 9.4 per cent, and private capital inflows the remainder. Suppliers' credits as a source of financing increased from \$12.8 million in 1965 to \$51.1 in 1970. These credits are time-limit acceptance drafts (usually of six to twelve months duration) on imports.<sup>28</sup>

Inflows of capital recorded as flows to private monetary institutions also rose significantly in recent years. A portion of this was in response to the various programs introduced to attract the earnings and savings of emigrant workers, sailors, and other Greeks residing abroad into domestic bank deposits. Many of these, however, were used to purchase relatively unproductive real-estate.<sup>29</sup> Even so, the foreign exchange flow is augmented.

Government and other public loans also expanded in the sixties. The IBRD provided over \$20 million in 1970 and \$25 million in 1971 to the Hellenic Industrial Development Bank. British and French banks provided an additional \$250 million of credits in 1970 to finance equipment purchases over the next ten years while a consortium of United States and Canadian banks provided a \$60 million Eurodollar loan.<sup>30</sup>

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<sup>28</sup>They must be placed in advance with the Bank of Greece in an amount equal to a certain percentage of the c.i.f. value of import shipments for goods included on certain import lists. This sum is to remain on deposit with the Bank of Greece for a minimum period which varies anywhere from two to four months depending on the good involved. Machinery and capital goods financed by these may be extended, keeping them in Greece up to 36 months or more if they "facilitate the execution of industrial investments in Greece." Europeans are generally the most willing to extend such credit terms.

<sup>29</sup>OECD Economic Survey, op. cit., p. 21.

<sup>30</sup>Greece, Economic News, No. 36 (April 1971), p. 1, and No. 37 (May 1971), p. 3. Also see The Economist (July 31, 1971), p. xvi.

The heavy reliance on suppliers' credits, public borrowing and capital imports by technical companies<sup>31</sup> in the 1966 to mid-1968 period created an excessive short-run burden of debt financing because all involved high interest rates and relatively short repayment periods. A large amount of suppliers' credits therefore were exchanged in the Eurodollar market for longer-term funds of three to six years. The upsurge in the inflow of genuine risk capital, consortium loans and foreign long-term industrial credits in the last three years should relieve such pressures in the future, although their effects will not be noticeable for several more years.<sup>32</sup>

External debt servicing as a percentage of total exports and net invisibles earnings is as follows:

1966	7.2 per cent	1969	13.4 per cent
1967	7.9 per cent	1970	14.0 per cent (preliminary figure)
1968	7.6 per cent		

The growing debt-service ratio which pushed officials to seek longer term financing (and resulted in the consortium loan and the British and French credits mentioned above, as well as a \$72 million IBRD commitment),<sup>33</sup> and the receipt of more foreign long-term low interest money for development, should once again lower its debt-service ratio.

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<sup>31</sup>Technical companies are contractors doing infrastructural work for Greek public authorities. The authorities finance such works by foreign borrowing under guarantees provided by the Bank of Greece.

<sup>32</sup>It is estimated that the servicing and repayment responsibilities of public and private foreign loans could reach \$130 million in 1973.

<sup>33</sup>Foreign Economic Trends, ET 71-107, p. 6.

Post-war foreign indebtedness accumulated by 1970 was \$1.7 billion (25 per cent of which was in suppliers' credits).<sup>34</sup>

The persistent and growing imbalance in international accounts remains an important problem for the Greek economy. The grave repercussions which normally follow such situations are currently avoided by buoyant export and invisibles earnings and capital inflows. These forces combine to establish a more solid base for future equilibrium in the balance of payments--but they do not guarantee it. However, prospects are brighter for slowing down or stopping the recent worsening of the basic balance. But as long as invisible receipts and medium- and long-term capital inflows, including loans, only partially cover the trade deficit, balance of payments considerations will continue to prevail as a central limiting factor affecting the economy and the level of growth. If increasingly larger deficits occur, Greece may have to dampen its rapid growth with selected deflationary activities to reduce demand for certain categories of imports and to direct investment toward more productive ventures. Any solution to its international disequilibrium requires continued strengthening of the structural foundations of the domestic economy as well as the enlargement of its foreign markets and investments.

#### GREECE, THE EEC AND THE BALANCE OF PAYMENTS

The influence of the EEC in accelerating the movement of the Greek economy upward cannot be ignored. It pushed Greece away from an import-substitution orientation and into an outward orientation which

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<sup>34</sup>International Commerce, May 18, 1970, p. 39.



minimized domestic market considerations. It provided a competitive price-cost comparison that could not be easily ignored and encouraged development based on natural advantages thereby serving the more orderly and rational organization of industrial enterprises. It then provided an outlet for expanded production. At the same time, it established an advantage for Greece in terms of capital inflows by providing indirect access to foreign (non-EEC) businesses denied direct access to Community markets.

The preceding chapters established the preferential relationship between Greece and the EEC, drawing special attention to its export and import effects. Beginning in July 1968, all non-agricultural products produced in Greece were exempt from every tariff hindrance eliminated among the member nations themselves. In agricultural products, Greece also benefits, but not as freely since more barriers between member nations still exist and some tariff quotas continue to prevail. At the same time, Greece maintains the full right to protect interior production until 1974, relinquishing its rights only gradually, if at all, throughout the remaining ten years. At that time it assumes the same duties and obligations of existing member nations in every sense in order to foster economic cooperation.

The risks Greece faced when it sought association with the EEC were formidable, although perhaps less than the risks had Greece chosen to go it alone. Although the evolution of Greek-EEC trade is encouraging, the relationship continues to be characterized by a substantial trade deficit. Certainly it was expected initially that Greek imports

from the EEC would increase since customs duties were substantially reduced and sophisticated capital equipment was needed to modernize its economy. In return all Greece could offer were agricultural products with a low income elasticity of demand. The more recent expansion of industrial exports helped to overcome the dependence of Greece on the EEC for many items. Also as more industrial products were produced, greater diversity appeared which in time may permit Greece to narrow its trade deficit with the Community. Between 1960 and 1966, their deficit grew by an average of 12 per cent per year to 10.8 billion drachma (\$360 million). Since then (1966 to 1970), the annual increase in the deficit averaged 8 per cent and now totals 14.9 billion drachma (\$497 million). (Table 6-4)

Since 1962, Greek exports to third areas, i.e., to other than EEC members, evolved in a fashion different from Greek-EEC patterns. Between 1966 and 1970, exports to the EEC more than doubled while imports from the EEC increased by less than 60 per cent. In its trade balance with non-EEC members the deficit grew by almost 80 per cent, as a result of a much slower expansion in exports (33 per cent) and a slightly faster expansion rate for imports (63 per cent) than was true for EEC trade. Moreover, until the last five years, the structure of Greek exports to the Community remained generally unchanged with agricultural products (whose future possibilities of expansion are considered limited) remaining of major significance. Since 1961-62 when manufactured products represented 1.4 per cent of total Greek exports, such products grew in importance to almost 40 per cent of total exports in 1970. Manufactures exports to the EEC increased slowly

TABLE 6-4

GREEK-EEC COMMERCE AND WORLD COMMERCE SINCE 1960  
(million drachma)

	1960-1962	1963	1964	1965	1966	1967	1968	1969	1970*
Imports from the EEC	8.12	9.6	11.2	14.1	15.1	15.8	18.2	20.1	23.7
Exports to the EEC	2.25	2.8	3.4	3.7	4.3	6.0	6.7	7.5	8.8
EEC Trade Deficit	5.90	6.8	7.8	10.4	10.8	9.8	11.5	12.6	14.9
Rate of change in deficit	--	15.1%	14.9%	34.0%	3.6%	-9.0%	17.5%	8.9%	18.6%
Export-Import Ratio	27.70	29.6	30.8	25.9	28.6	37.9	36.6	37.3	37.2
Imports from the rest of the world	13.1	14.5	15.3	19.9	21.6	19.8	23.6	27.8	35.0
Exports to the rest of the world	4.5	5.9	5.8	6.2	7.9	8.9	7.4	9.1	10.5
Trade Deficit with rest of the world	8.5	8.7	9.5	13.8	13.7	10.9	16.2	18.6	24.5
Rate of change in deficit	--	1.5%	9.9%	44.4%	-0.4%	-20.4%	48.9%	14.8%	31.6%
Export-Import Ratio	34.6	40.3	37.8	31.0	36.4	44.8	31.2	32.8	30.0

TABLE 6-4 (cont)

	1960-1962	1963	1964	1965	1966	1967	1968	1969	1970*
Imports from the EEC as a percentage of total imports	38.4	39.9	42.3	41.3	41.3	44.5	43.6	41.9	40.4
Exports to the EEC as a percentage of total exports	33.1	32.7	37.5	37.2	35.5	40.3	47.5	45.1	45.7
Greek-EEC deficit as a percentage of total deficit	40.8	43.8	44.9	43.1	44.1	47.4	41.6	40.3	37.8
Agricultural exports to the EEC as a percentage of total exports to the EEC	68.3	70.5	69.8	73.8	66.7	64.0	57.0	49.6	---
Agricultural exports to the rest of the world as a percent- age of total exports to the rest of the world	41.9	45.9	40.8	40.5	40.2	36.2	27.1	24.5	---

Source: Computed from OECD Statistics on Foreign Trade, Series B. \*Preliminary

until 1966--although at a faster rate than did manufactures exports to third areas. After 1966, Greek manufactures increased considerably with their share now equal to half of total EEC imports from Greece.

Private capital flows through EEC institutional facilities are no longer possible until Greece resumes a parliamentary form of government.<sup>35</sup> Capital flows originating from private and state agencies in the individual member states (particularly France, West Germany and Italy) grew prolifically in the last ten years--over half of all private long-term capital flows since 1968 came from member nations and almost 70 per cent of suppliers' credits originated there.<sup>36</sup>

The overall pre-1966 and post-1966 pictures are quite different. Pre-1966 saw a defective export structure, limited competitiveness in production, high import demands for consumer manufactures and modest capital inflows. Post-1966 shows a diversified economy where minor exports assume increased importance, competitiveness is expanding, capital inflows common and demand for consumer manufactures steady as a percentage of total imports.<sup>37</sup> The considerable difference in tariff rates in the two areas are being reconciled and the impetus to improve competitiveness of existing establishments continuing. If exports continue their unparalled expansion, and imports remain manageable, the realization of the objectives of the association agreement are within reach without at the same time endangering the Greek economy.

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<sup>35</sup>See Chapter II below.

<sup>36</sup>Greece, Economic News, No. 41 (August, 1971), pp. 2-3.

<sup>37</sup>Some might view this as an improvement since income grew quite rapidly at the same time.

## FULL GROWTH BALANCE OF PAYMENTS AND RELATED CONSIDERATIONS

Historical analysis tells us that as domestic business activity expands in a developing nation, it is quite reasonable to expect imports to grow relative to exports, and that generally this predominates the overall balance of payments since exports and imports are significant in relation to income, and capital transactions are small. But little is said about how long this will continue.

Recent analysis indicates that in a developing area stressing an open outlook, exports and imports often have more than a proportionate influence on national income, employment, or living standards; that is, a high sensitivity to the activities of the foreign sector exists.<sup>38</sup> In that case, the ability to estimate or measure the influences of such effects would bear considerably on a nation's development strategy since projects could then be promoted on the basis of their potential to add to net foreign exchange earnings in the long-run.<sup>39</sup> In this way a nation eventually might overcome its heavy foreign exchange drain from the expanding imports associated with its development efforts. In any case, the close inter-relationship between the growth and stability of the domestic economy to external forces in a nation with a high sensitivity to the foreign sector encourages additional inquiry into considerations affecting this relationship.

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<sup>38</sup>For example, where an export product accounts for 85 to 90 per cent of agricultural incomes (such as cocoa in Ghana in the late fifties) and where agricultural incomes predominate national income, a slight fluctuation in the price of the export commodity could have a substantial impact on the nation's economy.

<sup>39</sup>UNCTAD, Growth, Development Aid, and Finance Conference, TD7/Supplement 4, pp. 116-119.

Greece is a nation where chronic deficits were the rule for the last twenty years. Despite this, its foreign exchange rate remained steady and apparently unthreatened, and its capital inflow grew. Its general economic vigor and its expanding and diversified export abilities and invisibles earnings partially explain this, as does the strengthening of its domestic economic structure. Our concern, however, is with what was simultaneously happening in its external accounts as industrialization occurred, and whether any noticeable changes appear in these accounts over time.

To study this relationship it may be useful to modify and expand an idea discussed by Roy Harrod concerning a "full growth balance of payments surplus (or deficit)".<sup>40</sup> This idea parallels one currently in vogue, the "full employment budget surplus", and its development is particularly meaningful for developing areas where chronic deficits in the current account are common, but where it is often difficult where deficits are growing to determine if any real improvement in the nation's international position is likely. Development of such criteria is needed and desired as a guideline for the country and for its planning and policy making officials.

This idea might also add depth to the usual "debtor-creditor" concept<sup>41</sup> employed to describe the characteristics of international

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<sup>40</sup>Roy Harrod, "Assessing the Trade Returns," Economic Journal, LXXVII, No. 307 (September 1967), pp. 499-511.

<sup>41</sup>This recognizes four typical stages of growth as a nation moves from a young agricultural one to a well-developed industrial economy. The first is the young and growing debtor with imports greater than exports and the excess financed by borrowing. The second is the mature debtor where the balance of trade is favorable, but past debts

debt over time. That concept gives only a limited outline of the evolutionary structure of the balance of payments and gives little insight into the extent of debt that is appropriate or can be handled by a young and growing nation. Combining the Harrod idea with the debtor-creditor one may provide a framework within which one can distinguish whether a developing nation is making progress towards its goal of self-sufficiency in the external sector, or whether it needs particular assistance, foreign aid, etc. .

Using this "full growth balance of payments" concept, policy-makers in Greece would attempt to establish a balance of payments position which did not repress growth below its potential even if it fails to improve its international position in the short-run. As Harrod states it:

If at time a the balance of payments was such that it appeared that corrective measures should be taken, and if between time a and time b the balance of payments improved and perhaps came into equal balance, solely owing to growth being dampened, then the need for corrective measures at time b would be no less than it was at time a.<sup>42</sup>

To develop this idea more fully, further classification of imports and exports is necessary. Such classifications are difficult and will determine the usefulness of the exercise itself. Generally speaking, imports required for industrial expansion and general development involve basic materials needs, manufactures for further

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<sup>41</sup>(cont.) still prevent any positive current account balance (and net capital movements are zero). The young creditor stage shows growth in a positive trade balance with foreign credit extended. The fourth stage is the advanced or mature creditor stage which allows an unfavorable trade balance to be paid for from earnings on past lending.

<sup>42</sup>Harrod, op. cit., p. 500.



processing,<sup>43</sup> and fuels. Fuels often belong in several categories because their role in an economy is diverse. They may represent a raw material for further processing in industrial production, or a provider of power for industrial and home use; consequently they are partially determined by factors unrelated to industrial production, i.e., autonomous factors relating to the nation's general development. In Greece, since domestic power is almost totally derived from an internal power source (lignite), any fuels imports are considered raw materials related directly to industrial expansion.

Food imports are another difficult item to classify. They are not directly related to industrial production and with increased domestic efficiency Greece could produce larger quantities of meat and dairy products, and provide for its own needs. Since food imports held steady or declined throughout the early sixties as a percentage of total imports (and since the demand elasticity which exists for this particular type of food item increases as incomes grow), it seems more realistic at this point to consider food in the category of being influenced by autonomous forces, rather than one determined by competitive conditions. In the next decade it might be preferable to revise this. Any other imported item involves one which is neither a function of industrial expansion nor essential to the general development of the nation.

Three major categories of imports are discernable. They are the same that Harrod proposed: (1) imports which are directly related

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<sup>43</sup>Some of these may revert to another category if increased efficiency permits home production in the future.

to industrial production, such as raw materials inputs and capital goods; (2) imports essential to development, but not directly related to industrial expansion, such as food and fuels; and (3) imports not essential to development but which occur because of the inability of the domestic producers to compete with world producers, such as many consumer goods and luxury items. In any given period of time, the first two categories are essentially unrelated to the competitive efficiency of the domestic economy, expanding as it grows. The third category, however, is influenced by prices, product quality, consumer tastes and preferences, habit, etc., and may be displaced by domestic producers; therefore, imports of such items need not rise as general expansion occurs.

Once items are assigned to a category we can devise a measuring rod to help explain (1) the relationship between industrial expansion and imports, and (2) the likely evolutionary character of the balance of trade account. While the latter is necessary to help determine whether an expansion in imports (or exports) is harmful to the development effort, the former is necessary to help establish the latter and to explain more fully the nature of industrial progress in newly advancing areas.

One might begin to assess a nation's foreign trade role by comparing its rate of growth of required imports (i.e., Category I, industrial materials, and II, general development imports) with its rate of growth in "net exports". "Net exports" is an attempt to measure the competitiveness of the economy; it is determined by subtracting Category III imports from total exports. For economic

development and diversification to occur, i.e., for Greece to pursue its full growth balance of payments, it becomes necessary for required imports to exceed net exports (i.e., a chronic deficit on the trade account arises) through a net inflow of aid, foreign investment or invisibles' receipts. In time, however, as the competitiveness of the economy grows, the margin between required imports and net exports should narrow until the growth in exports matches or exceeds the rate of growth in required imports.<sup>44</sup>

In addition to the problems which arise in defining categories, there is some difficulty relating industrial materials imports to the rate of industrial growth because of lags, stockpiling of materials and equipment, business expectations, etc. . Yet, this estimate is necessary to give us a rough measure of the industrial production elasticity of demand for imports. To help overcome this the period chosen for comparison covers over ten years. A single calculation is then made for that time period. Furthermore, a more careful determination of import volumes and a more detailed breakdown of manufactured and required imports (and value added) than what is currently available would strengthen the meaning of this measure.

Over the full ten years, Greece experienced slightly higher than a 1:1 relationship between imports of industrial materials and industrial production, its ratio running 1.25:1. (Table 6-5) However,

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<sup>44</sup>It goes without saying that if net exports exceed required imports, the nation has moved, or is moving, to a net creditor position--something which is not an issue here.

TABLE 6-5

FULL GROWTH BALANCE OF PAYMENTS' INDICATORS  
(in percentage terms)

Year	Industrial Production Average Rate of In- crease over Previous Year	Category I Imports: Average Rate of In- crease over Previous Year	Category I & II Im- ports: Average Rate of Increase over Pre- vious Year	Net Exports, 1959 Prices, Average Rate of Increase over Previous Year
1960	6.8	-22.0	16.5	-6.0
1961	10.1	80.8	20.9	-5.0
1962	5.5	14.9	8.3	-6.7
1963	9.1	12.7	15.2	28.6
1964	14.1	22.7	18.8	-16.7
1965	11.8	21.4	19.5	-13.3
1966	24.4	10.5	9.0	23.1
1967	5.5	0.5	0.0	40.6
1968	20.7	16.2	10.8	12.2
1969	29.1	13.5	24.9	59.8
1970	17.1 (est)	20.7 (est)	4.5 (est)	28.6 (est)
1959-70	154.1	191.9	148.4	144.8
1959-65	57.3	130.5	99.2	- 5.8
1965-70	108.3	82.8	68.7	150.6

by choosing two distinct periods within the data,<sup>45</sup> 1959-65 and 1965-70, we can more clearly view the growth process which took place in Greece. In the earlier period, every one per cent increase in industrial production required a 2.28 per cent increase in imports of industrial materials. During that time only a limited expansion in industrial output occurred, but several major industrial complexes financed by capital inflows were undertaken. By the latter period, the initial expansions were well underway or completed with excess capacity built into the facilities; also some of the investments involved plants for processing raw materials (and limited capital goods production) which were then able to supply materials at competitive prices for other domestic industries.<sup>46</sup>

During the 1966-1970 period, these factors combined to foster a significant decline in industrial materials imports to 0.763 per cent for each percentage change in industrial output. More than likely this ratio will again creep upwards somewhat as new facilities or new types of production are introduced, although as long as Greece continues to stress industries based on domestic resources, and as long as its added ability to provide semi-manufactures develops concurrently, a ratio higher than 1:1 is unlikely. To say more than this is

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<sup>45</sup>Although Harrod indicated that the longer time period was better able to overcome inventory and other difficulties, his conclusions held up under similarly short periods as long as they were long enough for such changes to average out.

<sup>46</sup>Some such substitutions (e.g., textiles and metals in Greece) can be expected as diversification occurs. Import substitution of consumer goods are reflected in a relatively higher net exports figure; those involving processed raw materials, semi-manufactures and capital goods are reflected in a relatively lower required imports figure.

unwarrented because of the lack of refinements in the data and the statistical tools employed.

Because an expanding domestic rate of growth requires higher net exports, relative to required imports, the accompanying table also shows these figures for Greece. Over the entire period, imports of consumer manufactures grew from \$146 million to \$369 million (1969) but exports expanded equally as fast resulting in similar rates of expansion for each one over the full period. Of greater interest, however, is the five year period 1966-70 when net exports grew at over twice the rate of required imports. This reflects the success of earlier industrial imports to stimulate the economy as a whole and exports in particular. As long as net exports continue to expand more rapidly than required imports there is reason to expect Greece to ultimately close the gap between merchandise exports and imports.

This "full growth balance of payments" idea emphasizes the basic need for heavy imports to facilitate an expansion of infrastructure and industrial complexes in the early years of development (both in Greece and elsewhere). After this initial thrust, although industrial materials imports may remain essential to further expansion, their rate of increase relative to the rate of increase in industrial production slows considerably as the nation succeeds in overcoming the decay and inefficiencies initially present in its economy. Our figures for Greece probably overestimate (the speed and magnitude of) this decline because of the extensive excess capacity built into the initial investments, the strong emphasis placed on expanding processing and raw

materials production,<sup>47</sup> and its decision not to get involved in heavier industries such as steel in its early development years. Other nations might find a relatively high industrial materials need for a much longer period if the emphasis of their developments or basic resource endowments are different.

#### CONCLUDING REMARKS

This completes our first concern which was a detailed analysis of the specific nature of economic expansion in Greece. Overall, the judicious use of policy measures and the EEC association profit its development efforts. Of equal, or even greater significance, is an unfaltering trust in and use of a relatively unfettered market mechanism to guide and ration resources. This, in itself, makes Greece worth noting.

The remaining chapter only indirectly concerns the Greek expansion efforts; its major emphasis is to consider certain notions prominent in development literature in light of the Greek experience. The ensuing discussion of these ideas leaves the prescription for economic development unwritten; but it does provide some insight into the complexity of a development process.

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<sup>47</sup>This is reflected in the major importance of the metal's industries in Greece's overall development.

## CHAPTER VII: CONCLUDING ANALYSIS AND REMARKS

### A RECAPITULATION AND SOME INTRODUCTORY COMMENTS

The last three chapters provide an in depth presentation and analysis of three critical areas of the Greek economy especially as development efforts in each area related to the Athens Treaty and to domestic policy considerations. Greece presents a somewhat unique and optimistic situation in the last decade by combining a relatively high growth rate with considerable reliance on the market mechanism as the means by which to achieve it.

The actual consequences that specific and general policies had on a particular nation (Greece) was analyzed in light of that nation's past economic performance, present structural improvements and likely changes in the future. In this way basic problems or conditions likely to be encountered in expanding economic policy on a national and a supranational<sup>1</sup> basis were isolated or anticipated and discussed.

One factor tempering the conclusions in studies on trade preferences or regional integration is the slow nature of geographical responses to changing economic and political conditions. The effects of treaties on taxes, monetary arrangements, social insurance schemes or on the general level of economic performance filter down very slowly

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<sup>1</sup>Trade preferences, although not necessarily coexistent with supranational authority, do permit exogenous forces to exert influences on the possible direction of investment in a nation's domestic economy.



to affect the distribution of economic activity throughout a region and its individual members. It is precisely this distributional change, however, which is essential if Greece (or any nation) is successful in assuming a place within the EEC (a regional grouping). In fact, without this, Greek objectives of export promotion and economic growth could be implemented only with great difficulty since a powerful and hostile force would be working against them.

This study dealt with a comprehensive issue involving more variables than are usually dealt with inside the confines of traditional economic analysis. This was essential because a nation in its search for development faces much more than a given two or three dimensional alternative, and traditional static presentations cannot handle such considerations well.<sup>2</sup> One recurrent weakness which appears when broadening the scope of study is a resulting sketchiness and lack of focus. To help overcome such criticism this study chose as its focal point the numerous elements of international and domestic economic policy as they bear on the economic expansion of a single nation. However, even by restricting the analysis to policy considerations, an extremely broad topic exists. Adding political and other non-economic considerations opens up even more of a Pandora's box.

The literature in economics treats extensively and intensively the potential problems that less developed countries encounter in promoting an expansion of their economies. Numerous references are

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<sup>2</sup>Nevertheless orthodox analysis is important in a study lacking specific boundaries such as this one because economic theory can serve as a large screen onto whose background the narrow view of a one country multi-variable situation can be projected.

made to broad trade barriers, both tariff and non-tariff; to the prevalence of small-scale, inefficient firms able to survive only behind prohibitive barriers; to saving and investment criteria; to inhibiting socio-cultural and environmental factors; and to demand and supply characteristics of traded goods. Other current studies concentrate heavily on measures industrial nations might institute to increase imports from less developed areas. Little effort is directed to understanding actual policy decisions or dilemmas which often spell the difference between expansion and contraction in a developing area and few references are made to other issues emanating from the political-socio-economic arena.

This dissertation augments these materials by an in-depth review and analysis of some actual development problems as seen through the impact of domestic and foreign policies on Greek development. It stresses the dynamics of adjustment and the related issues which surround the integration of two partners of unequal economic strength. The Greek experience affords an excellent opportunity to illustrate a successful development effort while commenting on some of the pitfalls and dangers which arise from trade protection policies and the benefits derived from stable foreign exchange rates, lack of inflation and primary reliance on a free price system. These and other issues are increasingly recognized as important to economic expansion. Through studies of such issues needed changes in the direction or perspective of theoretical approaches can be determined. Furthermore, without meaningful applications, little basis exists for studying economic phenomena.

More specifically this study is one of many by which the gap between theory and application can be bridged. Comprehensive case studies help economists and international agencies to gain a fuller understanding of the working results of international arrangements. Some of the issues analyzed in this study involve: (1) compatibility problems of regional integration schemes involving nations at different levels of development; (2) likely non-economic effects on economic behavior and incentives within the region; (3) differing debilitating effects of various trade restrictions on developing nations and ways these could be overcome from within; (4) the usefulness and disadvantages of regional blocs or preferential agreements in developing the world economy; (5) the significance of balance of payments deficits in the growth process; and (6) the impact of a free market system on market structures, economies of scale, access to technology, etc., and an analysis of development of competitiveness within a free market system. Analyzing the resource allocation policies in a particular nation enables greater focus on isolated factors responsible for development. An unashamed pragmatism is associated with this study, along with a preoccupation with efficient resource allocation. Resulting conclusions consequently are more definitive than traditional approaches might allow, yet sufficiently obscured as to disappoint the reader seeking single truths.

The study also stresses rather strongly that development strategies seldom fall into neat categories; rather they vary according to the size of the nation, the initial resource endowment and a multitude of other factors. Hopefully in narrowing down the precise agents

of economic transformation it will add to a more well-rounded view of economic processes.<sup>3</sup>

Since our presentation of the details of the Greek development effort is now completed, this last chapter offers a reckoning and an evaluation of some general development conditions in light of the Greek experiences. It presents a discussion of certain notions or hypotheses of development literature (old and new) and, where apropos, Greek circumstances are used for illustration.<sup>4</sup> After this some questions for further study are suggested and some concluding comments made.

#### HISTORICAL PROGRESS AND GENERAL COMMENTS ON DEVELOPMENT ISSUES

Enormous strides in resource mobilization in undeveloped areas were made in the last two decades although progress in efficient use of resources and correcting population pressures was considerably less.<sup>5</sup>

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<sup>3</sup>Hla Myint in Economic Theory and the Underdeveloped Countries (London: Oxford University Press, 1971), pp. 15-16 says: "It may be that such a(n) . . . approach means widening the scope of conventional economics to take into account the broader sociological factors that made up 'political economy' in the classical sense. But there is no need to argue about this since orthodox opinion has never [italics mine] imposed a methodological interdict on such a process. As Marshall wrote: 'Each economist may reasonably decide for himself how far he will extend his labor over that ground.'"

<sup>4</sup>No attempt is made to reveal a definite theory of economic growth. The author feels that each society must examine its own economic preconditions and determine the crucial factors of its own situation. The path to growth need not be a smooth nor a single one.

<sup>5</sup>Freedom from some pressures, especially population, gives Greece an initial plus factor in its development quest. It is not a free benefit since Greece consequently faces the possibility of labor shortages (generally seasonal up to this point) and severe relocation effects if a general recession hits Europe. Equally beneficial to Greece is the lack of cultural, religious and social barriers and the presence of a sort of "protestant ethic" outlook, not to mention the high rate of literacy in the nation.

Development studies in the sixties generally stressed insufficient progress or the failures of panacean approaches employed. However, a thorough look at reform measures indicates numerous successes in land reform, price stability, technological growth and development, educational and human resource development, "green revolutions" in agriculture, etc. . The complexity of problems faced in economic expansion and the propaganda from the Third World castigating all who enjoy a higher standard of living than they do reinforces this disillusionment. Even where the ratio between successful and unsuccessful programs is high, growth rates may remain unspectacular and progress dismal.

This paper presents a more cheerful view of development processes. Emphasis centers on the real achievements reached in Greece by objectively assessed needs being enforced by domestic policy and the market mechanism. Explicit use of policy tools to foster development is a relatively new phenomena and, as such one subject to trial and error.<sup>6</sup> Yet such promotions considerably influenced per capita incomes, health and nutrition improvement, education and industrial expansion and mobility in Greece.

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<sup>6</sup>One need only to take a cursory look at development planning efforts to see the often haphazard approaches and attempts made in the early years of deliberate growth manipulation. The participation of a nation in a monetized system certainly permits more effective use to be made of policy tools by making monetary incentives possible. In Greece, for example, the response to such incentives included a more rapid growth in savings (often, however in tangible assets) which assisted in funding investment projects and minimized the shortage of investment money. Foreign private capital flows also grew increasingly larger. Much of the success in, as well as failure in, building up savings and encouraging productive investments rests with various domestic policies pursued by the government.

Early discussions of deliberate measures, especially those bypassing a market system, were bitter since they seemed to threaten basic philosophical foundations or biases. Time, dialogue and greater experience with development situations occasioned notable changes in attitudes on this matter. More clearly defined objectives, functions and roles evolved and, more important, the need for adaptation and flexibility was recognized. Today deliberate promotion of economic development is widely advocated--perhaps to the opposite extreme.

Current policy efforts in developing areas are concentrated on resource mobilization, i.e., on investment in human skills, training, and physical capital.<sup>7</sup> To guarantee continued expansion, however, efforts must increasingly be geared to the criteria of improving efficiency in resource use<sup>8</sup> and in achieving optimum population levels.

Contemporary literature confirms the complexity and many-sidedness of economic development processes, and although the post-war period provides examples of the growth process, it remains unable to rigorously define the relevant dynamic functional relationships. This partly results from the inclusion of social, cultural and political

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<sup>7</sup>The effect of this in Greece was an increased proportion of income devoted to investment (public plus private) to levels comparable to those of advanced nations.

<sup>8</sup>Two of the most serious deficiencies evident in the Greek economy are the limited endowment of entrepreneurial ability and skilled manpower, and its low agricultural productivity coupled with a need for significant land reforms. To help overcome the first of these it instituted a number of vocational educational centers and encouraged greater specialization within the occupational structure. The second difficulty is practically ignored with only lip service paid to the need for land reforms. At its present intermediate stage of development, agriculture was able to expand to meet immediate demands--future expansion will prove more difficult.

factors in order to explain the sometimes random nature of economic growth. It also involves the relatively new element of time relationships. The germane time period is not the time necessary to achieve a long-run equilibrium position (i.e., theoretical time), but one where the implications of growth generating characteristics can be examined, i.e., a time period long enough for economic transformation to occur.<sup>9</sup> The material emphasized in this last chapter seldom refers to the jargon so often found in development literature--stages, big pushes, critical efforts, balanced growth, etc. . These terms often are too ambiguous and represent too many diverse ideas. Rather certain specific items of current emphasis in general empirical studies or country studies are briefly explained and related to the Greek case. The major items covered include trade preferences, economic instability, agricultural development, capital formation and export expansion.

#### EXPORT EXPANSION

The process of transforming an economy is subject to myriad difficulties involving delineation of the social and institutional

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<sup>9</sup>It may be worthwhile to recall the definition of economic transformation from Chapter I as "not only economic growth, but also the appropriate changes in crucial factors controlling the quality of life, thereby breaking down the obstacles to growth and promoting and/or creating an environment in which self-generated changes in production patterns can occur." This allows for greater flexibility and adaptability over time. In Greece, for example, expanding the industrial sector will only slowly influence the concentration of the working force in agriculture (and its correspondingly large contribution to GNP) since most industrial establishments rely on modern methods and are relatively large capital users (therefore, having only minimal employment effects). This means any surplus rural labor must increasingly rely on absorption into the mainstream of economic life through the services sector, or the relatively less productive handicrafts sector. It also carries with it the likelihood of significant inequalities in income distribution over the next decade.

structure, political and economic constraints and other such elements. Despite this, recent studies suggest several basic attributes often evident in areas of expanding GNP. One highly recurrent thesis is that a nation experiencing buoyant export growth generally experiences an overall high rate of growth.<sup>10</sup> Proper focus on this point entails consideration not only of whether gross export earnings are growing, but whether net export earnings (i.e., gross earnings less the cost of imports directly and indirectly needed to produce exports) are expanding as well.

The thesis that expanding exports coincides with higher growth rates in the domestic economy, holds particularly well if the country's share of total trade in the good is small, if prices are relatively stable in the nation, if agricultural expansion is present and if manufacturing production is rapidly increasing.<sup>11</sup> Furthermore, expansion through an external market minimizes the smallness of domestic markets and, by opening it up to world markets, promotes increased productivity and competitiveness.

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<sup>10</sup>Authors and articles where this issue is discussed include: Barend A. deVries, "The Export Performance of Developing Countries," Finance and Development, V, No. 1 (March 1968); H. C. Kim, "Korea's Export Success 1960-69," Finance and Development, VIII, No. 1 (March 1971); Robert F. Emery, "The Relation of Exports and Economic Growth," Kyklos, 20, fasc. 2 (1967), p. 477; and L. L. Johnson, "Problems in Evaluating Latin American Development," Oxford Economic Papers, 19 (July 1967), pp. 221-34.

<sup>11</sup>Barend A. deVries, The Export Experience of Developing Countries, World Bank Staff Occasional Paper, No. 3 (Washington, D. C.: IBRD, 1967), p. 4.



An outward orientation stressing price competitiveness and production for export characterized Greek policies in the sixties; import substitution and the development of heavy industrial production played only a minor role. This policy orientation was a crucial part of finding a solution to its overall trade and development problems. Greek policies further stressed the importance of primary and finished products, to the exclusion of intermediate ones such as steel. Heavy imports of intermediate goods facilitated the output (and often reexport) of finished items, although it created additional balance of payments pressures. Structural changes in the overall economy introduced totally new export commodities and gave further impetus to their efforts. Additional extraction of natural resources permitted greater processing facilities to be built. All of this assisted in ending the heavy reliance on tobacco and other agricultural crops for export earnings although the usefulness of such traditional items was not ignored.

Studies such as deVries'<sup>12</sup> indicate that success in expanding exports under an outward looking bias is structurally complemented if the nation contributes a relatively small share of its major exports and if it has a package of minor exports that is both substantial and diversified.<sup>13</sup> The ability to introduce and maneuver such minor products strengthens the potential trade position. Initially, the small size of the domestic market forces either small scale operations or stress on export markets to be augmented by an expanded domestic

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<sup>12</sup>Ibid.

<sup>13</sup>Ibid., p. 44. Chapter VI, p. 161, defines minor exports.

market as growth occurs. Greece shares these conditions and maintains significant price stability. This results in a bright international trade position.

The last decade saw imports and exports increasing somewhat in Greece in relation to GNP while the domestic market grew sufficiently to permit a new degree of freedom in determining the future route of diversification. The smallness of its position and the recognition that it never can be economically self-sufficient forced sounder judgements regarding product diversification, as well as easier entry into desired markets.<sup>14</sup>

The view of international trade as an engine of economic growth is an important contribution of "orthodox" theory, and certainly not a revolutionary thought. Earlier theories, however, primarily dealt with the composition of trade, i.e., explaining the status quo, rather than alterations of, and influences on trade factors over time.<sup>15</sup> Recent studies stress the influence that domestic policy and structure have on export performance, not the interrelatedness of exports to increased income. Domestic policy and the economic structure, for example, may

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<sup>14</sup> Angus Maddison develops this idea in some detail in his Economic Progress and Policy in Developing Countries (New York: W. W. Norton & Company, Inc., 1970).

<sup>15</sup> Comparative cost theory leads essentially to the proposition that the less developed nations should be producers and exporters of raw materials and items made by unskilled labor, and importers of the manufactures of the developed areas. The consequences of this where the demand for manufactures grows much more rapidly than the demand for primary goods, can limit growth potentials in the poorer nations. This static picture does not explain how poorer nations could ever attain the desired high standard of living existent in developed nations. Moreover, a decline in the prices at which they sell their products relative to the prices of goods they purchase from the developed world often accentuates the difficulties.

affect the type and distribution of export products, terms of trade, basic resource endowments and use; exchange rates; the role of import substitution and export expansion and trade policy; as well as a popular and recently emphasized concern--trade preferences and/or regional integration efforts.

Since there is little dispute that variations in the growth rate of exports bear directly on the health of a nation's economic performance, factors influencing export expansion assume a paramount interest in the less developed areas. Variations in export growth among the less developed nations may result from unequal growth rates of major commodities, domestic considerations which influence export supplies, differing growth rates in major consuming markets and/or access to these markets through preferential arrangements or the like, or special commodity policies. One major difficulty in promoting competitive structures are the antiquated and protective customs regulations prevalent in less developed areas. Greece's association with the EEC has rapidly forced extinction of its overprotective customs system, substituting for it a less restrictive one. Anticipation of this action also effectively threatened Greek businessmen into doing something about their lack of competitiveness. This exogenous pressure was, without a doubt, influential in shaping the orientation of trade policies.

Expanded exports allow a less developed area to expand and utilize their market potential for manufacturing and production as well as providing additional foreign exchange for capital and technology

assimilation and the minimization of debt servicing problems.<sup>16</sup> It therefore helps overcome many hurdles in the path to development. Greek officials recognized this and responded to it. Here was a nation where the value of imports was more than double the value of exports, where the structure of export receipts significantly changed over the last decade, where export prices remained roughly constant and import prices grew only slightly,<sup>17</sup> where export possibilities remained bright, and, finally, where an extensive effort was underway to open up the economy to outside forces through integration movements.<sup>18</sup> The attempt to use a position of preferential access to Western European markets to build a stronger, more viable, diversified industrial economy adds to any inquiry into the Greek experience. The successes and failures of its efforts provide insight and experience into many of the issues raised in conjunction with this export issue and with the use of customs unions and/or trade preferences as a tool of development in less developed nations.

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<sup>16</sup>Any nation which in the long-run has a net inflow of foreign funds must develop the capacity to service foreign loans, i.e., to meet interest or dividends to the suppliers of funds. This is why it is often said that most imports of capital goods must eventually be paid for by earnings from exports.

<sup>17</sup>Severe fluctuations in prices of key metals, however, can be sufficient to discourage the immediate export of such items.

<sup>18</sup>The rather tenuous position of the Greek balance of payments makes investigation of such elements of particular interest. Initially the integration effort was expected to further damage the balance of payments and the trade position, but in time it was seen as a way out of persistent trade deficits.

## CAPITAL FORMATION

A second characteristic frequently found in areas of greatest development is a high rate of investment;<sup>19</sup> in fact, the higher it is the better the prospects usually are for rapid economic advance (although private consumption may suffer). This applies to both foreign and domestic investments as well as to a simple rearrangement of productive inputs to expand the quantity or improve the quality of existing capital stock.

Again the importance of investment and capital accumulation are recognized as central factors in the growth process in orthodox theory although often such analysis defines investment more narrowly by excluding the acquisition of education, training or other skills which assist labor. It therefore views additional investment essentially as a means of expanding productivity and efficiency while, at the same time, initiating income expansion through the familiar multiplier-accelerator principles.

The maintenance of a high level of investment (29 per cent in 1969 and an average of over 25 per cent in the period 1965-70) and the accelerated growth of domestic savings and foreign support underlie the high rate of economic expansion achieved in Greece. The wide open nature of the economy coupled with its easy access to EEC markets helped satisfy its immediate investment needs and helped assure substantial outside assistance in capital accumulation in the future. However, more rapid productivity gains and structural improvements

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<sup>19</sup>High relative to lesser developing areas and comparable to or higher than in advanced nations.

would be facilitated by a revision of investment patterns away from the less productive housing and retail trade areas.<sup>20</sup>

Extensive public capital formation provided part of the boost to the economy during the last decade. Such investments were scattered across the nation and encompassed everything from deep water ports to irrigation facilities, road, communication linkage systems, and educational and medical facilities. The complementarity of the basic capital formation to the broader goal of increased agricultural production and diversification of the economy was evident in the type and location of infrastructure promoted. By 1971 investment of all types slacked off somewhat because of less buoyant prospects in major foreign markets and unused capacity in existing facilities.

Investment funds are available to poorer regions from many sources, including exports, taxes, public and private foreign sources, domestic savings, or inflationary policies. Shortages of investment funds often result because domestic savings are low, reinvestment rates for productive facilities practically nonexistent, or foreign financing limited.<sup>21</sup>

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<sup>20</sup>Institutional arrangements and public incentive programs attempt to deal with such weaknesses as do exist, but time also is necessary to successfully reorient basic saving habits. Encouraging greater use of capital markets is one way the government hopes to provide additional funds for industrial and manufacturing investments, while at the same time discouraging additional investments in housing.

<sup>21</sup>The bulk of the population is too poor to save and what does occur often involves unproductive ventures such as purchases of land, jewels, foreign bank accounts, etc. . Often little incentive exists from government sources to encourage domestic investment behavior, regardless of how small or large it may be. Some argue (Bruton, in particular) that sufficient potential savings exist in underdeveloped areas if only the nation could recognize the sources.

Greece found private citizens willing to underwrite government financing through bond purchases. Additionally some public saving occurred. Consequently no significant changes in the tax structure were necessary. The refreshingly warm welcome which foreign capital inflows receive in Greece encouraged foreign investments in response to economic policy incentives. External sources of long-term capital were relatively scarce only in the year immediately following the 1967 coup. Time and carefully nurtured public relations overcame this initial hesitancy.

Theoretically, capital investment should thrive in poorer areas which combine low-cost capital from the developed world with low-cost labor from the lesser developed world, yielding an output produced at low per unit cost.<sup>22</sup> Obstacles hindering this ideal condition include a lack of skilled and semi-skilled (or educable) labor; political, economic and social instabilities; narrowness of the markets and resulting high risk. Often, therefore, what investment does occur concentrates where these factors are minimized (such as in textiles or food processing).

Greece recognized the important implications of investment as a creator of capital stock and as a means of effectively reorganizing existing resources--and this paid off in significant growth of output. An unusual foresight and confidence allowed Greek leaders to see that although increased dependence initially arises with greater foreign participation in domestic economic life, greater strength also is

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<sup>22</sup>Supposedly by increasing the productivity of the workers while taking advantage of low cost wages and capital goods the profit potential should be enhanced.

derived from the more rapid economic diversification that accompanies such action. This kept investments from concentrating only in traditional areas and moved the Greek economy forward more rapidly than otherwise was possible.<sup>23</sup> Reliance on essentially free market forces contributed significantly also by minimizing price distortions in the evaluation of investment decisions.

Investment considerations focus attention on the number and complexity of development parameters, making generalizations about the effects of alternative economic policies practically impossible and highlighting instead obstacles to investment growth. To overcome this a great deal of effort is now directed to developing investment criteria for developing nations.<sup>24</sup> Each criteria essentially comes down to one basic element, that of using newly realized resources or previously unused ones in a manner so as to assure the maximum contribution possible to expanding the economy's capacity to produce. Variations which arise in determining the most useful area for expenditure arise from the type of measurement chosen and the particular restraints involved. Since investment results in capital formation pure and simple, as well as

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<sup>23</sup>This does not mean that if you cannot get substantial investment funds or divert funds to riskier, yet more productive investments, that you are sunk; rather it emphasizes that development is doing the maximum with whatever you have available or can attract; i.e., going all out rather than only half way, within the nation's value system.

<sup>24</sup>Approaches suggested can be summarized by major categories as studies which seek to minimize the ratio of capital to output or of capital to labor because relative scarcity of capital prevails; studies which seek to maximize the so-called social marginal product; and studies which seek to maximize reinvestment potentials of a given investment over time, in order to promote the highest overall growth rate even if it is at the expense of current incomes.



redirecting resources to alter the basic structure of the economy, the route by which technological change and investment are introduced as a routine matter is not easily or well established.<sup>25</sup>

Many consider the study of capital accumulation as really an extension of the trade or balanced growth issues. Regardless of its appropriate categorical listing, however, certain points must be emphasized for all nations as essential to the development experience. First, is the need to achieve higher saving to GNP ratios, hopefully in the 15 to 20 per cent range, to finance desired investments and to minimize inflationary pressures; second is the need to consider fully the complementary and competitive aspects involved in each economic activity undertaken; third is the need to carefully calculate and properly phase investment needs to minimize bottlenecks; and finally, the need to promote, at least in time, all sectors and regions of the economy.

#### AGRICULTURAL AND INDUSTRIAL INVESTMENTS

Basically the developing nation seeks to reach sustainable economic progress by changing a principally agricultural society into one that is increasingly industrial and involved in trade, services, transportation and communications. Almost always this necessitates extensive agricultural reforms and some expansion of social overhead capital. This latter investment increases productivity, employment and wages, thereby affecting demand. Successful agricultural reforms

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<sup>25</sup>Hal Bruton, Principles of Development Economics, Chapter 11, "The Accumulation and Application of Technical Knowledge," (Englewood Cliffs, New Jersey: Prentice Hall, 1965), pp. 177-204, gives additional information on these issues.

customarily resettles part of the rural population in an industrial climate. Machinery capable of increasing agricultural productivity replaces them in the agricultural sector. In the ideal case a balanced transformation occurs during this process where no shortages of materials, manpower or capital arise in either manufacturing or agricultural endeavors. In reality, shortages and bottlenecks do occur and the issue resolves itself into how to keep these imbalances from being self-perpetuating. Additionally the questions of the time involved and the ways of achieving an appropriate balance in demand creation can be raised.

Under our concept of "balanced growth" supply and demand are matched but seldom in simultaneous fashion. It is properly interpreted as a phase where the effects of bottlenecks are minimized and facilities set in motion to overcome them. This process is never completely successful since new discrepancies arise as soon as old ones are corrected. It means attempting to define or prescribe an "ideal" path to development (and here it ties into the investment question), which may involve constant reevaluation of many diverse considerations. Capital costs, fund availability, profitability yields, population influences and dispersion, social costs, linkage effects, etc., must be evaluated, and effort made to access the relative advantages of each path by some measurement criteria.

Initially because of the relative importance of agriculture and the tiny role of industrial activity in most less developed areas, short term expansion is most rapidly facilitated by additional investments in agriculture. Initial spurts of quite phenomenal growth in

agricultural output followed by more moderate increases over the longer run period is a normal response to the initial heavy investments in agriculture. Higher farm productivity may not wildly accelerate the growth pace of the nation, but it has substantial impact on GNP because of its relative importance.<sup>26</sup> However, over time a greater proportionate investment in industry pays off handsomely in terms of income gains since industry is usually more productive per person employed.

Once an economy passes a primitive level, agricultural improvements cannot be ignored. Although investment becomes more heavily concentrated in industry as time passes, it must still provide for technical and educational improvements in agriculture. At any given moment, when faced with limited funds for investment in capital goods and labor training, competition prevails between expanded output for farming or for industry. Over time, however, experience shows such expansions are normally complementary. Output and investment per man increase in both agriculture and manufacturing, although generally manufacturing increases at a faster rate.<sup>27</sup> Because of the intertwining effects of investment disposal, the issue is all the more confusing. For example, increasing farm income perpetuates a traditional way of life which may embody higher population growth rates and consequently little improvement in per capita living standards. Increasing industry considerably alters life styles and raises the importance of

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<sup>26</sup>For example, a doubling of the importance of the industrial sector may be of little significance if it involves a move from two to four per cent of the economy.

<sup>27</sup>John Pincus, Trade, Aid and Development: The Rich and Poor Nations (New York: Published for the Council on Foreign Relations by McGraw Hill, 1967), pp. 156-60.

money incomes thereby discouraging population expansion since additional mouths to feed are recognized as a net burden. However, industrial expansion often provides little stimulus to employment creation.<sup>28</sup> Growing urban incomes generally create heavier demands for imported goods, whereas increased agricultural incomes generate greater demand for domestically produced items. The lack of control over many conditions in agriculture increases risk and uncertainty in recovering invested funds. Yet agricultural expansion is crucial to a growing nation. Once again, therefore, only attention to the special conditions or situation of a nation itself can accurately reflect whether a concentration of investment in agriculture or industry is justified at any given time.<sup>29</sup>

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<sup>28</sup>Greece is lucky in this respect since the movement of agricultural workers from rural areas is relieved by the ability of the workers to freely emigrate to other European nations. This helps prevent decay and blight in urban centers resulting from an inability to absorb the exodus of rural labor into an industrial establishment geared to capital intensive methods. The heavy use of labor in tourism and shipping also relieves some pressures.

<sup>29</sup>For example, in nations where chronic shortages of agricultural commodities arise, industrial investment might be the best short-run method of increasing food supplies, if it yields foreign exchange earnings (from import substitution or export expansion) with which to add to domestic food supplies. Another consideration is the willingness to sacrifice maximum income growth for diversification. Many nations politically prefer industrial investment offering a smaller return than agricultural investments. This indicates a preference for industry even at the cost of greater income. If unemployment is a problem agricultural investments should not stress labor saving devices; if factories produce items which use locally produced raw materials, this might indicate a need for greater efforts to expand domestic supplies of these raw materials; if agricultural imports drain significant amounts of foreign exchange, this might indicate additional efforts in domestic agricultural production if conditions are suitable.

Investment in agriculture received lower priority than industrial investment in Greece over the last ten years, although it still receives substantial funds. Ultimately the limiting factor to agricultural expansion in Greece is its land availability; consequently, investment efforts are devoted to better utilizing what limited land exists through improved seed, fertilizer and insecticide inputs plus extensive irrigation development. Intensive research and development programs also are an important part of the over-all scheme. These are seen as means of removing much of the uncertainty in aggregate agricultural output, thereby minimizing foreign exchange instability.

In the initial period of change in Greece, efforts were made to protect the agricultural frontrunners in a way similar to assistance provided infant industries. Loans for priority purposes were easy to come by, excess debts often absorbed by the government, risks minimized, etc. . Also few land or agricultural taxes existed.<sup>30</sup>

The agricultural-industrial conflict is much debated, but recent studies predict more difficulty in guaranteeing agricultural expansions than industrial ones.<sup>31</sup> The obvious need for agricultural

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<sup>30</sup>Such taxes could serve to increase the marketable surpluses since higher than average yields could result in greater profits, especially in Greece where the market mechanism is powerful and small owner-cultivators predominate.

<sup>31</sup>Agriculture in Economic Development, C. Eicher and L. Witt, editors (New York: McGraw Hill, 1964); Keith B. Griffin, "Reflections on Latin American Development," Oxford Economic Papers, 18 (March 1966), pp. 1-18; Stephen Enke, Economics for Development (Englewood Cliffs, New Jersey: Prentice-Hall, 1965); and Sidney Weintraub, Trade Preferences for Less-Developed Countries (New York: Praeger Special Studies in International Economics and Development, 1966), pp. 58-63, are among the many economists who discuss this issue.

development derives from its relatively heavy contribution to GNP relative to other sectors of the economy; the need to feed urban dwellers (especially where labor availability is limited); and the dependence of industrial expansion on agricultural raw materials. In addition some areas utilize expanded agricultural output as an easy source of foreign exchange earnings. Politically the expansion of the rural areas is particularly expedient since it is where the electorate lives.

A steadily advancing and diversifying agricultural sector gives Greece still another favorable asset in its development efforts. Greater efficiency in resource use and additional international earnings are the major results to date of agricultural reform. Credit for sparking success in agriculture rests chiefly on the intelligent use of government policies and powers to achieve desired objectives. Similarly failure to expand in the immediate future primarily reflects the hesitancy with which the government approaches land reforms and the consolidation of holdings. Policy efforts revolve principally around the market mechanism which proved in practice to be a powerful force of change.

In an era generally characterized by declining earnings from agricultural products, Greek foreign exchange earnings from such items expanded primarily through greater diversification. This also lessened the instability and risk to foreign exchange earnings in the future. The rapid expansion of income over the last decade put heavy pressure on the agricultural sector for increased output--a demand successfully met in all areas but meat and dairy products. The increased role of agriculture as a supplier of industrial raw materials also was of major

significance, since all too often an industrial expansion is stymied from a lack of adequate channels of food supply and/or raw materials.

The transformation of an agricultural sector is inevitably complex requiring both a new direction of resources and a greater intensity in traditional lines. At the same time new knowledge must be supplied, a willingness to use this knowledge fostered, and the inputs needed to implement this willingness guaranteed. More important, once basic changes are begun, they must not become sacrosanct, but a continual and orderly process of change must be installed.

Greece affords a good example of how the desire to expand agricultural output might be approached. The government provided the basic effort to promote research and technology; it used the price mechanism to foster production incentives and efficiency. It used subsidies to promote new methods or crops in the initial introductory period. There was never a question of agriculture versus industry, but a desire for both. Simply put, there was a recognition from the start that agriculture must support the bulk of the labor supply, but that in time, higher agricultural incomes required more job opportunities in the remainder of the economy. They also recognized that if the economy as a whole expanded rapidly, a way would be found to increase agricultural productivity as workers left agriculture.

#### ECONOMIC FLUCTUATIONS

Studies indicate a fourth characteristic of many developing areas--the growth process is not smooth, but is characterized by a series of ups and downs with rapid acceleration followed by slow or

even stagnating growth, eventually rising again to a more rapid acceleration.<sup>32</sup> In nations where absolute democracy prevails, overcoming these fluctuations is most difficult. Voters are seldom willing to concede that government action is either necessary or desirable or they are unable to define the proper scope of government. In economies where total planning is relied on, a firm and unyielding sense of direction<sup>33</sup> plus bureaucratic inertia slows down appropriate responses--although once the problem is recognized, correction can be more direct. Where both democratic rule and planning exist, similar complications can arise.

Greece presents a favorable record in the area of economic fluctuations, although a serious threat to stability developed in 1967 with a military coup,<sup>34</sup> and a resultant decline in foreign investment immediately following it. This was reinforced by the completion at the same time of several major investment projects. The military authorities responded as quickly as possible to reverse the downward trend. Initially it appeared at times to be grasping for straws, but with time

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<sup>32</sup>J. D. Coppock, International Economic Instability (New York: McGraw Hill, 1962); H. C. Wallich, "Stabilization of Proceeds from Raw Materials," in Economic Development for Latin America (New York: St. Martin's Press, 1961); Kyklos, Fasc. 2 and 3 (1958 and 1959 respectively) deal entirely with short-run stability problems in less developed areas; and Howard S. Ellis, "The Importance of Price Stability," in Economic Development: Challenge and Promise, Stephen Spiegelglas and Charles J. Welsh, editors (Englewood Cliffs, New Jersey: Prentice Hall, 1970).

<sup>33</sup>Experience shows that planners often do not suggest alternatives for divergencies arising after the plan is implemented. This often fosters hasty and indiscriminate slashing of projects without sufficient thought to priorities.

<sup>34</sup>Military ventures are a major reason for uneven growth rates in developing areas.



and greater confidence a more rational approach to preparing for and overcoming fluctuations resulted (although much room for improvement still exists).<sup>35</sup>

Rudimentary stages of industrialization are usually accompanied by overcapacity and bottlenecks. Time lags arise in implementing complementary projects and the size of efficient production units varies considerably. For these reasons a heavy investment period is often followed by a slack one, as industrial facilities are completed or as excess capacities eliminated. Instabilities may be accentuated, if not precipitated, by fluctuations in export earnings.<sup>36</sup> Slight fluctuations in more advanced areas often lead to wide price swings for commodities produced in less developed countries, further magnifying income fluctuations there. This recurrent income fluctuation reinforces a "boom or bust" mentality in the populace. Regardless of whether an economy operates in a planned or an unplanned environment, prior thought must be given to the principal respects by which such activity might be dealt with and appropriate provisions suggested in advance.

To the extent that fluctuations in foreign demand for primary products causes price and income instability in less developed areas,

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<sup>35</sup>Reliance today rests primarily on monetary and fiscal spending programs, many of which are described in earlier chapters.

<sup>36</sup>A. I. MacBean's Export Instability and Economic Development (London: Allen and Unwin, 1966) and Coppock's International Economic Instability suggest that developing countries' export proceeds are no more unstable than other nations'. Others using NBER techniques disagree. Certainly, however, export instability contributes to a recessionary impact.

little can be done without time and a transformation of resources from non-traditional uses. To the extent that ups and downs in business activity come from domestic demand, monetary and fiscal authorities control the tools with which to compensate for such fluctuations, although they perhaps do not have the appropriate finesse in using them.

In Greece governmental responses to oscillations in the level of economic activity are commendable. Its record of price stability is an indication of effective policy control. Temporary disturbances in the sixties were accompanied by more rapid recovery as skills in the employment of fiscal, monetary and balance of payments tools evolved. With further diversification of the economic structure and the introduction of additional experience in dealing with monetary and fiscal institutions, fluctuations derived from economic phenomena should be further minimized.

The openness of development policies weakens the government's command over the Greek domestic situation,<sup>37</sup> and sets the stage for significant fluctuations from external sources. However, greater influence will be gained as the importance of agriculture in exporting and employment declines. A most crucial lesson of the Greek experience stems from the advantages derived from price stability--it promotes domestic stability (and therefore investment), provides better measures of real costs and introduces a climate favorable to foreign investment. Greater regional ties may adversely have affected

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<sup>37</sup>Various exogenous causes may also limit the institution of appropriate policies.

the strength of domestic policy; but it did force attention on the basic concerns of price stability and full employment.<sup>38</sup>

#### TRADE PREFERENCES

A fifth (and our final detailed) consideration of current interest concerns the appropriate role and the consequences of preferential trade agreements.<sup>39</sup> Since the late fifties, a number of writers investigated this issue and the related concepts of effective and nominal tariff rates, non-tariff barriers to trade and probable effects of the removal of unconditional most-favored-nation clauses from trade agreements. Under preferential agreements, developed areas would reduce tariffs only on imports from developing areas, permitting them preferred status relative to other foreign suppliers (or where quotas existed, preferences would maintain a minimum share for imports from these areas). The developing areas believe these preferences will broaden their markets and enable nascent industries to take advantage of economies of scale, thereby facilitating greater economic growth. Obviously the system is discriminatory, benefiting only some parts of the world and helping some of the less developed areas more than others

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<sup>38</sup>Changes in either employment or price levels can have serious repercussions within a regional group; therefore pressures exist for appropriate controls over them under integration schemes.

<sup>39</sup>Harry G. Johnson, Economic Policies Towards Less Developed Countries (Washington, D. C.: The Brookings Institution, 1967); Raul Prebisch, Towards A New Trade Policy for Development (New York: United Nations, 1964); Sidney Weintraub, Trade Preferences for Less-Developed Countries: An Analysis of United States Policy (New York: Praeger Special Studies in International Economics and Development, 1966); and John Pincus, Trade, Aid and Development: The Rich and Poor Nations (New York: for the Council of Foreign Relations by McGraw Hill, 1967).

(that is, those which are the lower cost competitors). While preferences can represent an initial bonus to developing areas by opening up markets where demand is strong, (provided they can handle it), they would also be temporary if successful.

Several stumbling blocks are encountered in the implementation of preferences, not the least of which is the need for revision of certain trade regulations in the GATT structure. Already the negotiations for preferences have introduced division and ill-will among some of the less developed areas themselves.<sup>40</sup> Hesitancy also exists to share the preferential position in areas already enjoying such benefits. Combining all of this with the fears in the advanced nations that foreign competition may disrupt their economies, strongly suggests that general preferences are doomed from the beginning and that selected preferences will be granted slowly and with great caution.<sup>41</sup>

The trade preferences instituted between Greece and the European Community run from free, unrestricted entry of products to entry limited by tariff quotas, to eventual full economic cooperation. The preferences are dated, i.e., limited to a maximum of twenty-two years with the greatest period of time given to relatively unimportant items or items not actually produced in Greece at the time trade preferences were introduced. Greece enjoyed some immediate benefit from its strong preferential position in agriculture. Industrially, however, the

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<sup>40</sup>This idea already is present in the view expressed that the nations benefiting from preferences are already the better off of the underdeveloped world.

<sup>41</sup>Harry G. Johnson, op. cit., p. 53.

initial effect on Greek exports to the EEC was minimal (you cannot export what you do not produce), while EEC exports to Greece expanded considerably. The actual and threatened competition introduced into the economy by the Athens Treaty provided an important incentive to overcome inefficiencies encouraged by past protection. Consequently the longer run impact will prove beneficial to Greek manufactures (already this is showing in increased industrial exports) and will open up the door for greater Greek participation in EEC development schemes.

One focal point of this paper has been the intermediately developing nation which finds difficulty in competitively exporting manufactures basically produced for the home market, despite their supposed advantage in materials, labor, etc. . To the extent that import-substitution, protectionist policies, or an overvalued currency are at the root of cost disadvantages, preferences from the outside can be of little help since the problem emanates from internal considerations. Moreover, preferential schemes suggested as a means of establishing new industries subject to economies of scale or on infant industry grounds may divert trade and require substantial cost reductions to become competitive. However, to the extent that the commercial policies of developed nations are at the root of cost disadvantages,<sup>42</sup> preferences can be beneficial.

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<sup>42</sup>The results of the calculation of effective tariff rates implicit in the United States tariff led Bela Balassa ["Tariff Protection in Industrial Countries: An Evaluation," Journal of Political Economy, 73 (December 1965), pp. 573-94] and Giorgi Basevi ["The United States Tariff Structure: Estimates of Effective Rates of Protection of United States Industries and Industrial Labor," Review of Economics and Statistics, 48 (May 1966), pp. 147-60] support the idea that tariffs of developed areas do impose especially heavy barriers to the manufacture's exports of the less developed areas.

Post-war developments indicate that the results of such action on world and country resource efficiency and welfare depends on the nations involved and the type of preferences arranged. There is no a priori basis for assuming that nondiscrimination is economically preferred to discriminatory trade arrangements.<sup>43</sup> To the extent that preferences open up the economy to outside influences (thereby promoting greater competition and eliminating vested positions guaranteed by protectionist policies), the effects are likely to be beneficial to world welfare. If these preferences are given on the basic criteria suggested, i.e., economic efficiency,<sup>44</sup> the developed nations should have little to fear.

The regional preferential agreement between Greece and the EEC potentially constrained growth rates in the short run by limiting certain areas of activity. Overall, however, it probably promoted a more stable and lasting expansion since it pressured Greece to structurally transform its economic facilities. To compensate for correcting its structural deficiencies, Greece received a preferential trade position with the EEC. From the standpoint of investments, Greece also stood to gain since foreign investors chose investments with the Community in mind, and not just Greece.

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<sup>43</sup>This resulted from developments in the field of customs union theory and commercial policy studies, and culminated in the presentation of the theory of the second best. See Weintraub, op. cit., p. 72.

<sup>44</sup>Generally this means "giving priority to products that the LDC's have already shown a capacity to export competitively (in contrast to infant industry arguments for confining preferences to products they cannot export competitively at present) and especially to products in which they account for a relatively large share of world trade." Harry G. Johnson, op. cit., p. 202.

These preferences, as seen in the three preceding chapters, expanded trade more rapidly between Greece and the EEC than it did between Greece and other advanced or underdeveloped areas. However, although Greek welfare was improved, the rest of the world may have suffered (particularly the other Mediterranean countries). We return once more to the idea that discriminatory nondiscrimination is not necessarily any better than nondiscriminatory discrimination, and that nondiscriminatory nondiscrimination is the only real long-run solution to the problem of promoting world efficiency.

The question of preferences raises numerous interesting issues, some of which were and others which were not dealt with in this study.<sup>45</sup> What is the potential contribution to foreign exchange earnings? Can supply appropriately respond by providing enough additional exports to benefit? What are the real reasons for cost differences? Are preferences simply being used to prolong special benefits to infant industries? Can preferences legitimately be asked for on an economies of scale basis? How long should preferences exist? Do economic effects differ if a time period is established? What degree of control should be maintained by the grantees? Is there an easier way to accomplish the same things? Do preferences lose usefulness if everyone gets them or can use them?

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<sup>45</sup> Chapters IV, V and VI of Part II of this study investigated many of these implications in the particular case of Greece. To fully cover all the general ramifications of trade preferences would require another full length treatise.

## AREAS FOR FURTHER STUDY

No doubt the record of economic policy as a tool of development indicates considerable scope for improvement. However, it is also true that many criticisms levied towards it are misplaced and failures often were the result of exogenous forces. Numerous errors in resource allocation were fostered by various strategies in the early years but today these are reduced by more comprehensive efforts to evaluate the proposals to be undertaken.

The desire for self-sustaining<sup>46</sup> growth requires a commitment from the nation to recognize and understand its existing and potential assets and liabilities. It also necessitates an awareness of the need for flexibility and adaptability since development is always accompanied by changes (however subtle) in aggregate demand, industrial concentration, national objectives and other means. As growth and development progress, emphasis must be redirected to a deeper perception and understanding of micro-macroeconomic relationships in the economic system.<sup>47</sup> Economic literature today generally stresses one or the other; as national economic sophistication progresses, mutual interactions become more complicated and analysis must delve deeper into the issues. In particular, what are the probable consequences of industrial bigness in the next fifty years? In advanced nations, large conglomerate structures evolved gradually; however, in semi-

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<sup>46</sup>Defined here as either the development of enough spontaneous forces to guarantee continuous development, or, as reaching full growth potential where balance of payments help is no longer necessary.

<sup>47</sup>This might be called adjustment dynamics. It certainly would include an analysis of patterns of change in factor and commodity prices, income distribution, etc. .



industrialized areas they are often the initial form of market structure. Does this impede or assist development prospects of a nation? The ability of the consumer to remain or be sovereign? Political freedom? Technological innovations? What influence does this have on the pricing of factors or goods? As confidence in the ability of nations to achieve sustained growth is established, these issues must gain further attention.

Another notion which bears increasing attention is the time element since in a developing area time is one of the more obvious constraints faced by the government in pursuing its development policies. Incorporation of time considerations in economic models as an important variable is particularly needed in development issues where basic resource supplies may need drastic alteration, political repercussions are likely, investments are only slowly felt, etc. . Time also works on objectives; for example, full employment today may occur at the expense of full employment tomorrow; or underemployment and inflation today may weaken prospects of capital accumulation in the future.

Another element where further study is likely to be concentrated involves overcoming internal economic inequalities. Centering additional attention on the real extent of capital lumpiness, for example, especially in terms of social overhead capital, can add needed insight into how best to allocate funds and resources for these purposes throughout a nation. A related issue involves regional development schemes which spread their efforts over the country side in order to minimize income inequality. Could greater concentration of effort

in leading sectors pull up the lagging ones more effectively than scattering investment to the winds? Or are the results too far into the future to have meaning? Indeed does a gap in expansion levels serve some useful function? Another inter-related item is the appropriate function of education as development occurs. For example, can a more rapid response to supply and demand factors be introduced into manpower development? Do the educational needs of rural and urban areas differ?

Other problems currently occupying considerable attention concern the measurement of industrialization or investment program costs in terms of economic welfare, national income, factor shares, etc.; measures of balance of payments considerations on overall economic progress and a more detailed development of normal debtor-creditor relations on an international scale for underdeveloped areas.

## CONCLUSIONS

The basic conclusions which can be drawn from this study are summarized below, although they are already evident in the study:

1. To cultivate a consistent development strategy a clear statement of national objectives and priorities must be stated and adhered to. The priority of objectives will, itself, affect the strategy chosen.
2. Since short run and long run objectives and consequences often differ, it bears repeating that the basic measure of economic performance must center on efficient resource allocation.<sup>48</sup> Frequently writers concentrate on the immediate allocating function of price while ignoring the longer-run impact that such immediate decisions have on resource supplies, especially capital.

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<sup>48</sup>Resource wastage is inexcusable in any context, but especially so when people are dismally off. As Galbraith says only the affluent can afford wastage of resources.

The essential underlying concern is one of understanding the likely changes in long-run supplies of inputs and other changes in production techniques (or any other elements) which result from a transformation of the underlying organizational structure of the nation. Through greater understanding of such phenomena a more meaningful body of economic theory may evolve.

3. To suggest or intimate that a single process of development exists which any nation can use on its own to accelerate its economy is imprudent. Each developing area confronts a unique set of constraints circumscribing possible alternatives. No single answer can prevail where population considerations, institutional framework, size, etc., vary so dramatically, although certain universal precepts can be established about certain variables in the development process. It is equally foolhardy to assert that deliberate attempts at development most often fail.

Since more is lost than is gained by stressing that the Greek case represents the general development problem, the case study aspect is stressed. Many factors which supported the Greek development effort are considered unique to its particular situation,<sup>49</sup> while other factors present provide additional insight into variables of common concern such as investment criteria, foreign sector considerations, etc. .

4. Any policy method is desirable if it assists in promoting resource efficiency. No special cases are pleaded for aid or protection or planning or preferences as being a necessary adjunct to development. Rather the basic idea here is that economic policy is an effective tool to promote economic growth. The actual mechanisms by which this policy operates may vary considerably from case to case and cannot be prescribed in absolute fashion, although the results of different types of policy can be described.

5. A free market mechanism serves a developing economy well, although some adjustments to it may be necessary at times. Its major advantage is the cheapness with which it operates (since no cumbersome administrative apparatus or big policing agency is required) and its capability of removing myriads of detail from planning authorities without sacrificing (and in fact probably improving) economic efficiency.

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<sup>49</sup>Even if identical resource endowments or constraints exist in two areas of the world, cultural or religious barriers may dictate entirely different paths to development.

## FINAL REMARKS

Too often in development theory, economists hide behind glib or catchy phrases to avoid dealing with the complexity and interrelatedness of the baffling development process. The issues are seldom analyzed in terms of a particular nation or development program in order to more fully comprehend the interrelatedness of relevant variables. There is no further point in hiding behind phraseology. We have numerous useful examples which, while not precisely defining a single method of development, do add sufficient insight into the overall growth process and do help to define important variables, as to cause greater optimism than what usually prevails. Undoubtedly certain nations and development strategies are more prone to successful performance for economic advance than are others, or simply have more lucky factors in their paths to developments, or as the popular phrase goes "are more conducive to growth".

A listing of such elementary factors takes considerable time. One basic element appears to override them all however. It is the inevitability of transformation within the economic structure. This involves more than an understanding of isolated economic or social factors; rather it encompasses the study of all the intricate maneuverings and trappings which accompany economic change.

Webster's New Collegiate Dictionary defines transformation as changing something (the structure, composition, nature, disposition, or the like) into a different thing. This change may be subtle or obvious (as in a transmutation or changing from one nature, form or

substance into another).<sup>50</sup> In any case it involves changing the economic fiber of the nation in some way so as to guarantee a higher standard of living for its members. No magic formula or potion exists here or elsewhere to force this transformation, to speed it up, or to make it any easier. It often requires a long and tedious effort involving millions of minute changes and many mistakes;<sup>51</sup> and it probably will never succeed well enough to remove poverty from our midst. There is little to gain from pretending otherwise, but even more to lose if no one tries at all.

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<sup>50</sup>Transmutation is especially associated with the idea of converting a base metal into gold or silver, a rather apt analogy to what some underdeveloped nations are trying to do.

<sup>51</sup>This points up once again why a free market system which responds to change automatically is so helpful in an underdeveloped nation.

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## APPENDIX I

## APPENDIX I: A REVIEW OF THE LITERATURE ON CUSTOMS UNIONS

Universal free trade has been a coveted economic goal since the days of the classical writers. Regional integration, which involves the removal of barriers to the free flow of economic activity, was considered for many years an admirable first step toward reaching this objective. The past twenty years of debate on the customs union issue (both the theoretical and practical aspects) have yielded no simple and clear cut answers; however, it has resulted in a number of productive discussions and theoretical principles. While this study itself is not meant to be an extension of the more theoretical writings, it does survey the results of such works to provide bases from which to measure both potential and actual gains and losses of economic welfare from unionization in the particular case of Greece and the European Economic Community. This chapter provides a brief summary<sup>1</sup> of the more notable and useful results of customs union theory.

In the main text of this paper a substantial amount of information and data is presented and scrutinized to determine whether a potential process of full integration will succeed in helping Greece realize some of the gains or losses stressed so extensively in the current theoretical literature. This is a formidable task which in a sense requires going beyond the existing analysis simply because a concise, coherent, analytical framework, easily examined in the light of empirical data, is not yet available. For example, one of the more obvious difficulties encountered in a study of customs unions is the magnitude of the geographical area to be investigated. Secondly, almost every aspect of economic theory is germane to the subject. Moreover, the well-worn problem of measuring gains and losses in welfare makes final evaluations difficult and imprecise. To further complicate matters, the political aspects of any integration scheme are so tightly interwoven into the basic fabric of the union itself that limiting one's analysis to economic criteria leaves rather large gaps in the over-all consequences.

In spite of the above limitations, a search into the impact of integration on factor efficiency, factor mobility, and income distri-

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<sup>1</sup> A condensation of the voluminous work done in this area fails to do justice to the subject matter. For a more complete discussion of the issues and bibliographical sources see: Clement, M. O., Pfister, R. L., and Rothwell, K. J., Theoretical Issues in International Economics, Chapter IV, "The Theory of Customs Unions," (Boston: Houghton Mifflin Company, 1967).

bution, as well as on consumption and investment patterns, is attempted in the text of this study. It thus serves to augment the existing theoretical presentations by relating some concrete examples to this structure and by examining its real world effectiveness as an analytical tool.<sup>2</sup> From this analysis an appraisal of the success or failure of the 1962 association agreement to benefit the Greek economy can be undertaken.

The theoretical principles presented are divided into two categories according to whether they involve static effects or dynamic effects. The former include the initial changes in consumer welfare and productive efficiency which occur as the result of unionization. The latter deal with the effect that integration has on the economic growth of its members by initiating changes in the scale of production, technological innovations, capital formation, etc. The theoretical summary encompasses a number of sources dating from the 1950 publication by Jacob Viner of The Customs Union Issue<sup>3</sup> up to a recent OECD publication entitled Economic Integration Among Developing Countries.<sup>4</sup>

#### Economic Integration: The Static Effects

By definition the European Economic Community represents an advanced form of economic union where (ultimately) no restrictions to trade among the member countries (will) exist and a common external tariff and quota system are established. In addition, free mobility for the factors of production between member countries is provided and government economic and social policies are subject to harmonization and co-ordinated restraints to minimize essential differences which might exist.<sup>5</sup>

The fundamental reasoning that deals with this type of economic arrangement is derived from Viner's static analysis of the welfare effects of custom unions.<sup>6</sup> Viner disputed the then traditional idea that a customs union represents only beneficial effects to the world

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<sup>2</sup>Consideration of trade preferences which is also included in this study is essentially a special case of customs union issues and theory.

<sup>3</sup>Carnegie Endowment for International Peace, New York, 1950.

<sup>4</sup>Development Centre of the Organization for Economic Cooperation and Development, Paris, 1969.

<sup>5</sup>Ingo Walter, International Economics: Theory and Policy, (New York: The Ronald Press Company, 1968), pp. 536-37.

<sup>6</sup>Viner, Op. Cit., pp. 48-52.



and the nations involved.<sup>7</sup> This was done by arguing that while a customs union represented a step toward universal free trade by expanding the area of free trade, it did not necessarily increase world welfare since the union might exhibit both beneficial and detrimental effects on trade.<sup>8</sup> Trade creation, which represented the promotion of free trade (and therefore the beneficial aspect of unionization), occurred whenever a low cost producer of a commodity was substituted for a higher cost producer in the trading area; trade diversion occurred whenever a low cost nonmember producer was replaced by a higher cost regional producer. Although this contribution has been a basic fundamental of customs union theory, it did little by itself to help facilitate a final judgment about the desirability of any integration scheme.

The second cornerstone of static analysis was presented simultaneously by J. E. Meade,<sup>9</sup> R. G. Lipsey,<sup>10</sup> and F. Gehrels<sup>11</sup> in independent articles dealing with the effects of integration on consumption. Viner virtually assumed that inter-commodity substitution based on changes in relative prices would not occur. However, once one allowed for changes in the structure of relative prices and the subsequent alternations that this called forth in consumption patterns, then obviously economic welfare was affected. If, after unionization, shifts from domestic suppliers to suppliers in other member countries occurred, and as a result consumers found their choices of goods widened and prices reduced, then their real income and material well-being were improved. If, however, the end result limited their choices further and/or imposed higher priced goods produced from within the union upon them (as opposed to lower priced items supplied

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<sup>7</sup>R. G. Lipsey in "The Theory of Customs Unions: A General Survey," Economic Journal, LXX, No. 279 (September, 1960), p. 497: "The earliest customs-union theory was largely embodied in the oral tradition, for it hardly seemed worthwhile to state it explicitly, . . . . It may be summarized quite briefly. Free trade maximizes world welfare; a customs union will, therefore increase world welfare even if it does not lead to a world-welfare maximum."

<sup>8</sup>This notion exemplifies what later was to be called "the theory of the second best". See R. G. Lipsey and K. J. Lancaster, "The General Theory of the Second Best," Review of Economic Studies, XXIV (1), No. 63 (1956-57).

<sup>9</sup>J. E. Meade, The Theory of Customs Unions (Amsterdam: North Holland Publishing Company, 1956).

<sup>10</sup>R. G. Lipsey, "The Theory of Customs Unions: Trade Diversion and Welfare," Economica, XXIV, No. 93 (February, 1957).

<sup>11</sup>F. Gehrels, "Customs Unions from a Single Country Viewpoint," Review of Economic Studies, XXIV (1), No. 63 (1956-57).

from the outside world), the effect on real income was negative. The net consumption effect of course depended on which of these two contradictory forces was greater.<sup>12</sup>

Combining the various effects associated with shifts in production and consumption patterns following the formation of a customs union leads to a number of useful generalizations.<sup>13</sup> Among these are:

1. The higher the pre-union tariff wall in the nations involved in the union, the more significant the gains from trade creation.
2. The smaller the initial differences in cost between the member suppliers and the outside suppliers, the smaller the losses from trade diversion.
3. The more complementary the economies,<sup>14</sup> i.e., the greater the initial difference in the costs of production of the same good within the member countries, the more significant the gains from trade creation.
4. The lower the level of the common external tariff introduced by the union members, the smaller the losses from trade diversion.
5. The higher the proportion of pre-union trade that takes place within the union area, the more likely

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<sup>12</sup>Lipsey in "The Theory of Customs Union: A General Survey," Op. Cit., states the idea in this manner: "A customs unions necessarily changes relative prices and, in general, we should expect this to lead to some substitution between commodities, there being a tendency to change the volume of already existing trade with more of the now cheaper goods being bought and less of the now more expensive. This would tend to increase the volume of imports from a country's union partner and to diminish both the volume of imports obtained from the outside world and the consumption of home-produced commodities."

<sup>13</sup>For further details and graphical presentations of the points below see: Economic Integration Among Developing Countries, Op. Cit., Chapters I and II; David Young, International Economics (Scranton: Intext Educational Publishers, 1970), Chapter VI; Walter, Op. Cit., Chapter XXIII; and Clement, Pfister, and Rothwell, Op. Cit.

<sup>14</sup>The definition of complementary economies as being those with dissimilar cost ratios between pairs of products was established by G. Makower and G. Morton, in "A Contribution Towards a Theory of Customs Unions," Economic Journal, LXII, No. 249 (March, 1953), pp. 33-49.

it is that a union will not lower economic welfare; the larger the union, the lower is the likelihood of trade diversion and the greater is the likelihood of gain from reallocating production.

6. The greater the elasticity of the demand and supply functions in the home markets, the more significant the gains from trade creation.
7. The more inelastic the demand in the union area for imported goods from the outside world and the more inelastic the supply of such goods, the smaller the losses from trade diversion.
8. The lower the elasticity of foreign demand for member exports, and the lower the elasticity of supply of outside world exports to the member nations, the more significant the gains in the terms of trade for the union.<sup>15</sup>
9. The smaller the economic distance between member nations, the more significant the benefits from increased trade and specialization within the customs union.<sup>16</sup>
10. The greater the administrative economies resulting from the removal of internal trade barriers, the more significant the benefits of unionization.

The above summarizes the initial consideration of the static benefits derived from a unified market structure. The additional gains or losses that are likely to arise over time (what are called the dynamic aspects of regional trade groupings) are those on which attention now focusses.

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<sup>15</sup>The general inference in the literature is that the creation of a customs union will improve the terms of trade with the rest of the world. The exact impact, however, is determined among other things by the types of goods or commodities for which productivity changes occur. For a more detailed explanation of alternations in the terms of trade between the union members and the outside world, see: R. A Mundell, "Tariff Preferences and the Terms of Trade," The Manchester School of Economics and Social Studies, XXXII (January, 1964), pp. 1-13.

<sup>16</sup>Walter, Op. Cit., p. 550. Distance in Walter's view encompasses not only the impact of transportation costs, but also give attention to differences in customs and traditions, tastes, institutional and political differences.

### Economic Integration: The Dynamic Effects

The longer run benefits derived from economic integration are particularly important factors in developing areas where existing trade patterns are as much the result of colonial ties, political considerations or cultural barriers as they are of the traditional economic determinants such as resource allocation, factor availability and comparative cost differentials.<sup>17</sup> It is vital that due consideration be given to as many elements as possible which are activated by an integration scheme and which stimulate economic growth in the member nations. Such things as changing the economic structure, factor suppliers, the degree of uncertainty and the technological base must be investigated to assess their contribution (or potential contribution) to an accelerated rate of growth.

The expansion of the market within which member enterprises can operate without restriction is the most noticeable occurrence immediately following the formation of a customs union. In fact, this is usually the fundamental reason given for any integration plan--the idea being that a more extensive marketing area will prove beneficial because it will permit more efficient use of factors of production via the introduction of economies of scale. Economies of scale likely to be encouraged by a larger market may include the use of more effective equipment, advanced technological methods, bulk purchases and administrative reorganization.<sup>18</sup>

Unfortunately there is little agreement about the likely influence that large scale economies will have. The theoretical presentations offer only minor assistance in evaluating their importance and the results of the empirical studies that have been undertaken are often inconsistent or subject to controversy. The significance of each effect appears to vary according to the situation and the particular country (or countries) involved. Unfortunately, time and space do not permit a full examination of all the possible dynamic effects discussed in the literature; certain beneficial considerations are briefly presented below.<sup>19</sup>

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<sup>17</sup> H. Linnemann, An Econometric Study of International Trade Flows, (Amsterdam: North Holland Publishers, 1966).

<sup>18</sup> Bela Balassa, The Theory of Economic Integration, (Homewood, Illinois: Richard D. Irwin, 1961), pp. 131-138 and pp. 159-163. Also see Tibor Scitovsky, Economic Theory and Western European Integration, (Stanford: Stanford University Press, 1958), p. 124.

<sup>19</sup> A more complete appraisal of the dynamic effects of economic integration may be found in Walter, Op. Cit., Chapter XXIV, pp. 560-583; Balassa, Op. Cit.; Scitovsky, Op. Cit., and his "International Trade and Economic Integration as a Means of Overcoming the Disadvantages of a Small Nation," in E.A.G. Robinson (ed.), Economic Consequences of the Size of Nations, (London: Macmillan, 1960); M. Kreinin. "On the

The first consideration is the expected additional interaction that occurs between firms when trade barriers are removed. This supposedly encourages marginal firms to improve the efficiency of their operations for fear of otherwise being eliminated as the integration process takes hold. The reorganization of production that is encouraged, both within and between member nations by this situation, serves to increase productive efficiency and to strengthen competition.<sup>20</sup>

A second point relates to the technological improvements that are encouraged by the removal of trade barriers. A larger market allows more efficient firms in the union to expand. "The resulting addition to profits which follows allows a larger sum to be invested in research and development programs. This in turn encourages more rapid technological advances. Not only is an additional quantity of research possible, but expansion of the efficient firms also leads to more effective research departments because they too are able to take advantage of important economies of scale."<sup>21</sup> Moreover the additional competition mentioned in the paragraph above leads to greater willingness of the part of businesses not only to introduce new means of production and to replace outdated capital equipment, but to do so more rapidly than would otherwise be the case by expanding current investment expenditures.<sup>22</sup>

Third, an expansion of the market may encourage additional investment in plants by member states. This occurs because the integrated market considerably reduces the intensity of risk normally associated with investment in another nation. Since the stability of the market is also enhanced by its larger size, this encourages additional foreign investment as well. Both of these serve to channel investment toward its most desirable sources and consequently they act as positive factors in the growth of the region.<sup>23</sup>

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<sup>19</sup>(cont.) Dynamic Effects of a Customs Union," Journal of Political Economy, LXXI (April, 1964), pp. 193-98, and James E. Meade, The Theory of Customs Unions, (rev. ed.; Amsterdam: North Holland Publishers, 1965). The dynamic factors pertinent to the Greek situation will be presented in detail in the later chapter.

<sup>20</sup>It is assumed that monopolies and cartels will be prohibited from operating within the region and that this action will be policed by the supranational authorities. Balassa, Op. Cit., pp. 164-65; and Scitovsky, Op. Cit., pp. 19-48.

<sup>21</sup>Scitovsky, Op. Cit., pp. 19-48 and pp. 110-135; Balassa, Op. Cit., pp. 101-116.

<sup>22</sup>Paul Streeten, Economic Integration, (2nd. ed.; London: Leyden, 1964), pp. 26-37.

<sup>23</sup>Walter, Op. Cit., pp. 563-64.

If the integration scheme encourages the free movement of factors, gains accrue as the marginal productivities of the factors are equalized. This is a static effect; however, an additional dynamic effect is introduced if free factor movements lead to expanded incomes. This in turn can foster increases in investment. In addition, free labor mobility involves the likelihood of skilled laborers from one nation migrating to another nation followed by a decline in income in the nation which they leave. These influences continue to be felt in the union long after the original marginal productivities of the migrating factors are equalized and the factor movements ended.<sup>24</sup>

### Economic Integration: Additional Comments

When dealing with an economy that is less advanced than any of the existing members of the economic union a different question arises: Is trade diversion which occurs in a developing area comparable to trade diversion which occurs in a developed area?<sup>25</sup> A diversion which leads to higher real income for the developing area through industrial developments based on utilization of idle resources need not represent a misallocation of scarce resources even though it replaces a lower cost producer for a higher one.<sup>26</sup> Rather, the important consideration is that some growth is occurring where none previously took place (even though inefficiency is present). One further consideration is whether joining an economic union keeps the inevitable costs of economic expansion below the level they would otherwise be.<sup>27</sup>

Another element which is affected by the creation of a customs union is the balance of payments. In the simple case of fully convertible currencies, it need only be said that equilibrium requires each member nation to maintain an overall payments balance with the rest of the world. However, even under ideal conditions the initial movement towards unionization is likely to cause shifts in the balance of pay-

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<sup>24</sup> More dynamic effects may emerge as language, cultural and social problems are dealt with by the member states. Also, government harmonization policies toward social security and labor union issues may influence the willingness of some factors to migrate.

<sup>25</sup> OECD, Op. Cit., p. 16.

<sup>26</sup> Either temporarily or permanently. These industrial developments may include import-substitution industries as well as other types of industry. To get a more complete picture of the effects that integration will have on underdeveloped areas see the OECD publication and Miguel Wioncek (editor), Latin American Economic Integration (New York: Frederick A. Praeger, 1966).

<sup>27</sup> This is one of the core questions around which the analysis in the last chapter of this paper centers.

ments position of the member countries because productive efficiency and consumption patterns are altered. This forces adjustments to be made in order to reestablish equilibrium. Where currencies are not fully and freely convertible the difficulties of restoring equilibrium are even more complex. In any situation, however, the ability of the economic union to correct disequilibria depends on the objectives of each national government and on the co-ordination and harmonization of national economic policies within the union area.

Finally, as implied in the above paragraphs, economic integration carries with it immense political overtones that ultimately push governments into dealing with problems they would otherwise be able to ignore or temporarily avoid. These often are highly controversial issues which require inter-governmental discussions and decisions, such as what to do about displaced workers from industries no longer able to compete in a wider market; adjustment assistance to firms displaced by unionization; agricultural support and subsidy programs; cooperation and harmonization of social security plans, insurance plans, monopoly and labor union policy, and taxation and fiscal policy; and last, but not least, the extent of and need for monetary integration.

Ideally, all the static and dynamic effects of integration must be considered in the evaluation of any customs union scheme. Unfortunately, the general question of the beneficial and harmful effects involved is more easily discussed than it is answered. The particular circumstances of the particular case in conjunction with the particular policies associated with the participants will color the final outcome of any economic organization. Likewise while the economic efficiency and expansion of a given area is promoted, world economic efficiency may be hampered.

## APPENDIX II



## APPENDIX II: OBJECTIVES AND HISTORY OF THE EUROPEAN ECONOMIC COMMUNITY

The constant economic and political crises hovering over Western European nations throughout the first half of the twentieth century resulted from many factors, not the least of which were the nationalistic policies of protectionism and extensive cartel arrangements common to the period. After World War II, fear of a return to such policies and the natural antagonism accompanying such measures, helped to foster a more cooperative climate among the European nations. It was in fact from these fears and a desire for peace that the union of Western European nations and the establishment of a common market arrangement became possible.

Far-sighted statesmen sought a unified Europe long before it became a reality.<sup>1</sup> It was not until the recovery period after the Second World War that the momentum grew strong enough for action to be taken. These initial unification plans called for the removal of artificial barriers to the transfer of goods, services and factors of production within the region. The ultimate goal envisioned some measure of harmonization and coordination of internal governmental dealings through which private economic activities were influenced, controlled or supplemented.

The Association Agreement with the EEC signed in 1961 holds the promise of full Community membership for Greece. The benefits possible from this union emanate from the rules and regulations defining that union. The Rome Treaty represents the strongest economic integration movement in recent times. The basic blueprint laid out at that time is still in force and Greece must adhere to its format if full membership becomes a reality. To familiarize the reader with the goals and regulations that Greece seeks to live under, the history, design and future of the EEC are briefly explored.

Lengthy treatises have been undertaken which give a definitive accounting of the evolution, the activities, and the organizations involved in the European unification process.<sup>2</sup> This, however, is not

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<sup>1</sup>The idea itself has been traced to ancient times; for information about this aspect see S. D. Bailey, United Europe: A Short History of the Idea (London: National News-letter, 1948).

<sup>2</sup>For a more detailed study into the political, diplomatic and social history of the EEC and the power politics involved behind its formation see: Merry and Serge Bromberger, Less Couliesses De L'Europe (Paris: Presses de la Cite, 1968); Hans A. Schmitt, The Path to Euro-

the concern of this paper; here only one aspect of the unification process is of interest, i.e., the impact which the European Community has had and continues to have on the Greek economy together with its likely consequences on Greece if it decides to remain outside the reach of the Community's umbrella. To assist the reader who is unfamiliar with the EEC certain fundamental characteristics of the Community's structure are explained below.<sup>3</sup>

### History and Institutional Structures

The European Economic Community (EEC) was the second organization chartered to overcome the debilitating effects of national rivalries and to help Europe once again stand on its own feet in the political and economic arena. The six signatories initially bound themselves together in the Treaty of Paris in 1952, a Treaty which established the European Coal and Steel Community (ECSC) or what was essentially a free trade area limited to the two products mentioned in its title.<sup>4</sup> The organization was developed primarily through the efforts of two Frenchmen, Jean Monnet and Robert Schuman, who sought the most rational distribution of production at the highest possible level of productivity.<sup>5</sup>

The High Authority, the institutional agency created to carry out the integration of the coal and steel sector of the Six, was a national agency. Its powers included the right (1) to end trade restrictions on coal and steel products among the members, (2) to prohibit the use of

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<sup>2</sup>(cont.) pean Union: From the Marshall Plan to the Common Market (Baton Rouge: Louisiana: State University Press, 1962); U. W. Kitzinger, The Politics and Economics of Economic Integration (New York: Frederick A. Praeger, 1963); and Isiah Frank, the European Common Market, Part I (New York: Frederick A. Praeger, 1961).

<sup>3</sup>For more comprehensive documentation and information about specific aspects of the EEC see the footnote references in the remainder of the chapter. For general information one of the many texts on the Community such as J. F. Deniau's, Common Market, (4th ed.; London: Fernhill Publishers, 1967); E. S. Kirschen's, Common Market (New York: Columbia University Press, 1969); or John Colmann, editor, Common Market: The Treaty of Rome Explained (Boston: Houghton Mifflin Company, 1969), would be useful.

<sup>4</sup>For details about the European Coal and Steel Community see the comprehensive study by W. M. Diebold, Jr., The Schuman Plan (New York: Frederick A. Praeger, 1959), and Albert Coppe', "The Economic and Political Problems of Integration," reprinted in Readings in International Economic Relations, F. B. Jensen and I. Walter, editors (New York: Ronald Press, 1966), pp. 271-287.

<sup>5</sup>Raymond Vernon, "The Schuman Plan," The American Journal of International Law, XLVII, No. 2 (April, 1953).

discriminatory trade and pricing policies, (3) to levy and collect excise taxes on coal and steel products (4) to negotiate loans, (5) to handle, and, if desired, to dissolve cartel and merger arrangements, and (6) to provide social and welfare services to laborers in the coal and steel industries.<sup>6</sup> Moreover, the High Authority was responsible only to a multinational parliament, the Common Assembly, which had power to review and pass on High Authority actions and to force the latter's resignation through a vote of censure, and a multinational court, the Court of Justice, which established the legality of executive actions and had the force of law throughout the Community. The only direct national control came through the Council of Ministers which served as a national advisory body and as the intermediary between the ECSC and the member nations.<sup>7</sup> Even here, however, actions were decided by majority rule so that no single nation had control of the Community's decisions.<sup>8</sup>

The first step at economic organization led ultimately to the formation of two other agencies--the EEC and the European Atomic Energy Commission (Euratom). Experiences with the ECSC quickly pointed out that:

. . . integration by sectors could only yield limited results. Its restricted scope, unconnected with the other parts of the economic and financial system, ruled out any large-scale activities and made it impossible to achieve an over-all equilibrium. To sweep away from European protectionism and economic nationalism with their resulting high production costs, high costs of living and economic stagnation, a different approach was required, a wide attack in more than one dimension as it were; it must have the depth of integration and the wide scope of a freeing of trade. This approach was provided first by the Beyen Plan and then by the Spaak Report, which marked the first step towards the Common Market.<sup>9</sup>

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<sup>6</sup> Schmitt, Op. Cit., pp. 169-205.

<sup>7</sup> Its function was stated in the Treaty in this manner: ". . . to co-ordinate and harmonize the work of the High Authority with the general economic policies of the individual member governments."

<sup>8</sup> Schmitt, Op. Cit., Chapters V through IX.

<sup>9</sup> J. F. Deniau, The Common Market: Its Structure and Purpose (London: Barrie and Rockliff with Pall Mall Press, 1959), p. 6.

The institutional framework of the EEC parallels the ECSC's although some important changes were made.<sup>10</sup> The European Community has its Common Assembly, the European Parliament, made up of 142 representatives elected from and by the member nations' parliaments and responsible for handling matters pertaining to policy and procedure, and its Court of Justice, composed of seven judges aided by two advocates generals. The Court exercises jurisdiction over both member states and individual citizens of those states and maintains power to condemn or affirm their action or inaction at the request of the administrative body of the Community. In addition, the Treaty provides for an Economic and Social Committee, a Monetary Commission, a European Investment Bank and a European Social Fund. An essential difference from the ECSC concerns the decision making authority or the Council of Ministers. This Council, composed of one representative from each member nation is not designed to be totally independent as was the High Authority. Rather, the ministers merely represent their respective governments in coordinating general economic policies for the Community and in determining the program necessary to implement and maintain the Community. Within the Council the votes are weighted so that the larger countries exert more control than the smaller ones.<sup>11</sup> In all other Community bodies the voting is on the basis of a simple majority; consequently, the larger states are unable to impose their desires on the Community at large.

The Rome Treaty also provides for a Commission to serve as the administrative arm of the Community and to represent the common interest--that is, to be responsible to the Community as an entity and not to any single member. The Commission is composed of nine members who, once appointed, are forbidden to communicate with their national states about Community policy. Their primary functions include: (1) developing and presenting proposals for approval by the Council of Ministers; (2) observing the methods suggested to carry out the Treaty and where necessary calling attention to the actions of firms and governments regarding these methods (that is, serving as a regulatory agency); and, (3) mediating and counselling with the various national governments through the Council of Ministers. In the Community itself it is the Commission that suggests proposals and the Council of Ministers that determines whether to execute and carry out these

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<sup>10</sup> Articles 137-209 define the original institutional framework. For details of changes since then see: Carol Ann Cosgrove and K. J. Twitchett, "Merging the Communities: A Milestone in West European Integration," *Orbis*, XIII, Number 3 (Fall, 1969), pp. 848-864.

<sup>11</sup> A majority of weighted votes determines most issues; however, in certain areas unanimous agreement is necessary. The Council of Ministers is usually assisted by various representatives of their government; e.g., if agricultural matters are on the agenda, the governmental officials in charge of that area will assist his representative on the Council; if shipping is the issue, then a different representative would assist and so forth.

suggestions. This power of proposal is an effective instrument in removing the obstacle most feared by each member, the other members' nationalism. It allows the Commission to gently prod the member states' opinions and to modify and alter suggested proposals which otherwise would be unacceptable, particularly if they were proposed by individual governments.<sup>12</sup> It is primarily through such devices that the timetable of unionization was speeded up.

The Treaty itself encompasses a wider magnitude of economic policy measures than did the Paris Treaty. In this sense, it is a much more extensive document. At the same time, however, a few specific rules and regulations are included; instead, the particulars are left up to the discretion of the Commission and the Council of Ministers. The institutional character emerges in this way:

The Treaty sets up an elaborate but effective system of checks and balances to aid the fusion of interests. In this sense the Treaty is a veritable constitution . . . the Community's actions are subject to the rule of law, as embodied in the founding Treaty and in the basic principles of Western jurisprudence. Finally, and most important, . . . the Community's structure--its constitution--however imperfect it may still be, is democratic, open to inspection and criticism, and in the last resort subject to the consent of the Community's peoples and their elected representatives.<sup>13</sup>

### The Rome Treaty

The Rome Treaty, which is the blueprint of the Community organization, contains five basic measures. Implementation of these measures assures the creation of a homogeneous economic union adhering to the generally accepted economic policy goals of full employment, price stability, rapid economic growth, and international equilibrium in the regional balance of payments. The five indispensable economic ingredients the Treaty embodies are:<sup>14</sup>

- (1) the abolition of all trade barriers within the Community itself and the institution of a common external tariff (CET) between the EEC and the outside world.
- (2) the development of common policies in agriculture and transport. The latter deals with possible trade

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<sup>12</sup> Coppe, Op. Cit., pp. 274-275.

<sup>13</sup> Walter Hallstein, "The European Economic Community," Political Science Quarterly, LXXVIII, No. 2 (June 1963).

<sup>14</sup> See Article III of the Treaty of Rome.

restrictions which can occur through discriminatory freight rates and marks of origin; the former, among other things, calls for uniform price levels within the EEC.

- (3) the free and unrestricted passage of factors of production between the member states.
- (4) the discouragement of cartels and similar trade restraining devices unless the governing authorities are shown that the results of these organizations can be beneficial to the Community.
- (5) the full coordination of national fiscal, monetary and balance of payments policies designed to provide low levels of unemployment, stable prices and international equilibrium throughout the member states.

The formidable task of implementing these five fundamental goals and the complexities of the problems which arose with the integration of the six economies are not our immediate concern.<sup>15</sup> The current status of the EEC endeavor and the immediate problems it faces, however, are concerns of this study because it is from these that the potential benefits and losses of membership for Greece must be measured.

#### Free Movement of Goods (Articles 9-37)<sup>16</sup>

The ability of the Six to initiate extensive trade liberalization was generally enhanced by a favorable economic climate and an expanding gross national product in the six nations during the period of transition. Prior to the timetable date established in the Rome Treaty (December 31, 1969), all tariffs and quotas on internal trade were eliminated.<sup>17</sup> Tariffs were cut in linear fashion by a set percentage of the rate existing prior to the formation of the EEC. However, certain items (primarily those likely to be subject to severe relocation effects or requiring tedious negotiation) were dealt with by special regulation.<sup>18</sup>

With the elimination of intra-Community tariffs and quotas, a common external tariff with the rest of the world was introduced.

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<sup>15</sup>See the general sources in footnote three for details.

<sup>16</sup>The text of the Rome Treaty is readily available in standard textbooks on the structure of the EEC.

<sup>17</sup>United States Department of Commerce, Overseas Business Reports, No. 68-29 (June 1969), p. 2.

<sup>18</sup>Of prime importance in this area were agricultural products.

According to GATT regulations, this common tariff could not exceed the arithmetic average of the existing tariffs in effect at the establishment of such a union, i.e., prior to January 1, 1957.<sup>19</sup> In addition, a coordinated commercial policy was undertaken and individual governments were relieved of their responsibility for tariff negotiations.

#### Agriculture (Articles 38-47)

The agricultural sector was ignored at the time the European Community was established because it involved much more than the removal of trade restrictions; consequently, even today only minimal benefits have accrued from unionization in this sector of the economy and many problems still must be overcome. The initial common agricultural program (designed in the early sixties and modified considerably since then) contains only the barest of particulars and does not remove restrictions to free trade on agricultural products within the EEC nor lower Community barriers of agricultural protection toward the rest of the world. The common agricultural policy goals include the establishment of a uniform price level within the EEC, a system of variable import duties on agricultural goods from outside the region (in order to cultivate a preference for Community products), the introduction of export subsidies to permit EEC commodities access to world markets, and the development of a general fund to finance support prices and export subsidies.<sup>20</sup>

The difficulties precluding any simple solution to the problems of the agricultural sector including highly dissimilar production costs among the members, varying needs for price support policies in order to cope with these differing cost structures, and divergent import and quota restrictions. On top of this there is an overall desire on the part of the Community to maintain self-sufficiency while at the same time relocating three to five million farmers into stronger areas of the economy to insure structural responses and a competitive price level.<sup>21</sup>

How restrictive the Community's agricultural policy will be rests on one crucial consideration--the target or internal support price chosen. Low prices, and the resulting import levies which accompany them to equalize import and domestic prices, allow substantial imports; high target prices discourage (or completely eliminate) imports and eventually lead to expanded European production and probably surpluses in agricultural production.

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<sup>19</sup>Gerald A. Curzon, Multi-Lateral Commercial Diplomacy: The General Agreement on Tariffs and Trade and Its Impact on National Commercial Policies and Techniques (New York: F. A. Praeger, 1966), p. 99.

<sup>20</sup>"The EEC and U. S. Agriculture," Business Conditions, Federal Reserve Bank of Chicago Bulletin (February 1970), p. 7.

<sup>21</sup>"EEC Farm Policy: Messy but not Plain Daft," The Economist, 234 (March 28, 1970), p. 34.

The Community membership chose the high target price (and therefore minimal political discomfort) which in fact stimulated the agricultural sector and led to significant surpluses which must either be stored or dumped on "external" markets at prices far below the support price. If the gains from free trade already acknowledged in the industrial sector of the economy are allowed to filter down through the agricultural sector substantial sacrifices must be squarely faced, particularly by the farmers in the relatively inefficient agricultural areas.<sup>22</sup>

The agricultural program necessitates a system of financial support by the member governments plus controls on imports from non-member nations. The joint support flows into the European Guidance and Guarantee Fund which administers the common agricultural program. Its revenues derive partly from the monies collected under the variable import duty system and partly from direct contributions from national governments. Ideally, the Fund also provides retraining expenses, advisory services and improved credit facilities;<sup>23</sup> however, in reality few funds flow into these areas.

Harmonizing agricultural support programs does not prevent crisis after crisis from developing. In addition, the financial cost of the common agricultural program is tremendous.<sup>24</sup> The cost-sharing arrangement is such that each EEC member contributes to the Fund under an agreed-upon formula and each receives reimbursement from the Fund for expenses incurred while supporting agricultural prices in its own territories. Therefore, some countries are net contributors while others are net receivers of Fund money. The concept of joint financial responsibility causes very serious conflicts of interest between the high cost and low cost producer nations, making even modest alterations in the price support level difficult to attain.<sup>25</sup>

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<sup>22</sup>There has been extensive migration out of agriculture and consolidation of small holdings since 1960 when the EEC nations had one-tenth as much land under cultivation as the United States, but twice as many farmers. Despite all efforts, extensive relocation is still necessary.

<sup>23</sup>The Economist, Op. Cit., p. 32.

<sup>24</sup>According to the Federal Reserve Bank of Chicago Bulletin, Op. Cit., p. 1: "If the agricultural budgets of the six nations are added to the costs of the Guidance and Guarantee Fund, it has been estimated that total agricultural policy costs in the Common Market Countries exceeded \$8 billion in the year ended June 1969. The U. S. agricultural budget cost about \$6 billion in the same period."

<sup>25</sup>Harold van B. Cleveland, "The Common Market after deGaulle," Foreign Affairs, XLVII, No. 4 (July 1969), pp. 697-710.



Unified prices and joint financial responsibility, the basic pair of premises on which the Community's agricultural policy rests, encouraged expansion of the agricultural sector (and burdensome surpluses of some products) and made the concept of cost sharing politically untenable. Recognition of the dead-end nature of these policies led the Commission to propose the Mansholt Plan in 1969.

The Mansholt Plan seeks to encourage excess labor in the agricultural sector to vacate their farms, and at the same time, to raise the technological efficiency of remaining farm operations. It hopes to lay the groundwork for lower target pricing (and an end to surpluses), consolidation of farm holdings together with a reduction in cropland, and ultimately, a higher standard of living among farmers. Unfortunately, implementation of the plan requires many years and a disruption of traditional patterns of agriculture.<sup>26</sup> Thus, aside from the additional financial burden involved, it may be a politically expensive program.

#### Free Movement of Persons, Services and Capital (Articles 48-73)

Discrimination in employment based on nationality and working conditions is prohibited by the Treaty of Rome. The Treaty developed these ideas extensively in order to discourage any attempts at overt or covert restrictions by the member nations. In addition, to enhance resource efficiency, the relocation of labor is encouraged by a coordinated social security system, retraining and resettlement outlays and the elimination of all legal obstacles to free mobility.<sup>27</sup> Consequently, movement of surplus labor to another country is prohibited only when employment is unavailable.

The integration of capital markets was more difficult to achieve although from the beginning all Community members adhered to Article VIII of the International Monetary Fund Agreement.<sup>28</sup> Which in essence prevents any restrictions from being instituted on current payments and transfers in world trade, i.e., on short-term funds. The Rome Treaty considered long term capital flow restrictions improper if they interfered with the operation of the Community. Unfortunately no definition of what constitutes interference developed; however, the impli-

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<sup>26</sup>Ibid., p. 706, and "EEC: Effects of a Policy," Monthly Review, Bulletin of the San Francisco Federal Reserve Bank, (March 1970), p.75.

<sup>27</sup>Anna-Juliett Pouyat, "Freedom of Movement Within the Common Market: Harmonization of Labor Legislation," Review of the International Commission of Jurists, IX (December 1968), pp. 45-59.

<sup>28</sup>Ninth Annual Report on Exchange Restrictions, (Washington: International Monetary Fund, 1958), pp. 4-8.

cations was that capital movements were free to respond to differentials in investment yields and in practice this was followed.<sup>29</sup>

Free movement of business enterprise is also an integral part of the basic design of the Community. Free movement is possible as long as the firm or individual adheres to the legal requirements of the host country. Needless to say it also assumes that all legal systems are modified to prohibit any discriminatory practices toward foreign-based businessmen.<sup>30</sup> Although some obstacles to free factor mobility undoubtedly exist, substantial progress is being made in this area.

#### Transportation (Articles 74-84)

A common transport policy required similar legal and operational regulations along with abolishment of discriminatory freight rates and country-of-origin levies. Introducing such measures into the Community was simplified somewhat by the nature of ownership of European transport facilities. Generally these are owned and operated as government enterprises and alteration of procedures can be handled through government channels. Furthermore, from the beginning conditions in the Community favored the adoption of a more continental scale of operations and the development of new methods of transport and communications responsive to Community needs.

A great deal of coordination in rail, pipeline, highway and inland waterway transportation occurred, eliminating many potential distortions in competitive conditions. Moreover the European Investment Bank made funds available to improve the efficiency of the transport system within the regional network.<sup>31</sup> This served both to supplement and to encourage the overall integration scheme.

#### Competition (Articles 85-94)

Any practices or associations whose objective or result is the "prevention, restriction or distortion of competition within the Common Market" are prohibited under Article 85 of the Treaty. Since possible gains from integrated markets can be erased through increased concentration, provision is made to outlaw certain practices likely to

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<sup>29</sup> Ingo Walter, International Trade, (New York: Ronald Press, 1968), p. 274. For a survey of the direction of capital flows see Geoffrey Parker, An Economic Geography of the Common Market, Chapter IV (New York: Frederick A. Praeger, 1969), pp. 56-84.

<sup>30</sup> R. B. Ely, III, "Free Trade American Style," American Bar Association Journal, LVI (May 1970), pp. 470-74.

<sup>31</sup> B. Jonckheere, "A Common Transport Policy," Free Labour World (October 1968), pp. 16-19.

interfere with competition unless they lead to improved production, technological progress, or a better distribution of goods. The measures do not discourage or prevent mergers and cartel type agreements, but only require that these be registered. Once this is done the arrangement is assumed to be advantageous, i.e., of a competitive nature.<sup>32</sup>

Many such mergers and agreements took place at the time the EEC was formed and they were not substantially questioned. The Court of Justice generally upholds Commission rules and regulations which are passed down but as in most nations, the burden of proof rests on the Market authorities, who have neither the staff nor the money to investigate and bring to court all potential violators.

The American concept of price fixing and "bigness"<sup>33</sup> being illegal per se, is not part of EEC policy.<sup>34</sup> Furthermore coordination in the area of national anti-trust legislation is minimal.

#### Fiscal, Economic and Balance of Payments Policy (Articles 95-99, 103-116)

The EEC since its beginnings enjoyed a general economic expansion and was not plagued by high unemployment or severe inflation--a situation which minimized the necessity for a coordinated economic policy. Although the various governments agreed on consultation, harmonization and coordination with respect to fiscal and monetary policies several times, it was not until late 1969 that concrete action was forthcoming.<sup>35</sup>

Until 1975, when the European Parliament is to gain strong budgetary powers, the Community relies solely on contributions from each member to subsidize the agricultural program and other joint schemes. Increasingly, however, these contributions are to be supplemented by common customs duties and import levies.<sup>36</sup>

The need for harmonization in fiscal matters became more evident as inflationary pressures of differing strengths appeared in Community nations. Common policies regarding indirect taxes and greater cooperation in fiscal and monetary policies are recommended to help control such pressures. In 1967, a step forward came with the signing of a value-added tax agreement whereby the nations agreed to standardi-

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<sup>32</sup>Walter, Op. Cit., p. 276, and M. J. A. Sasson, "Competition Policy: More than "anti" Trust," European Community (October 1969), p. 3.

<sup>33</sup>In terms of "a significant portion of a relevant market."

<sup>34</sup>Ely, Op. Cit., p. 472.

<sup>35</sup>"The European Common Market: The Next Phase," Monthly Economic Letter of the New York First National City Bank (August 1970), p. 94.

<sup>36</sup>Ibid.

zation of that tax and the introduction of other measures which would ease administrative difficulties.<sup>37</sup> By 1980, when full harmonization of economic and financial policies is scheduled to take place, monetary coordination and harmonization may be more complete. Future plans already call for a common currency, joint management of international reserves and greater restrictions on exchange rate fluctuations.

Undoubtedly serious problems will arise as six nations with differing strengths and weaknesses and differing business conditions and capacities strive toward economic and monetary union. However, unless the fiscal, monetary and wage policies of the six nations are restructured to adjust to differing economic conditions, freedom of trade and payments within the Community may be subject from time to time to restrictive trade and exchange controls. The goals of the Treaty of Rome are consistent only with a complete harmonization of domestic economic policies--without this complete freedom of trade and payments on current and capital accounts, upon which economic union rests is impossible.

### Conclusion

The commercial, financial, social, political and economic factors at work within the Community are both numerous and complicated. The strength of various forces within the Market ultimately determines whether the members succeed in implementing the five basic objectives. Undoubtedly, the EEC will create its own personality as it develops; but it now faces a number of complex situations which force each member to more fully assess the logical implications that are forthcoming whenever a supranational agency handles what originally was a matter of strictly national concern.

... [A]s long as the goal [of European political unity] remained remote and largely undefined it served to unify the Six and to provide a political *raison d'être* for economic unification. As concrete steps were proposed to give it institutional form, divisive questions were raised about the external purpose, the membership, and the internal political structure of the "Europe" the Six would create.<sup>38</sup> The idea of political union still hangs in the European air . . . But it has ceased to be a strong moving force in European politics and in the work of the Community. The Community is living largely on momentum. Deprived of its unifying political purpose, its efforts to move further

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<sup>37</sup>"The Value Added Tax in Europe," Business Conditions, Bulletin of the Federal Reserve Bank of Chicago (February 1971), p. 11.

<sup>38</sup>Cleveland, Op. Cit., p. 703.

down the road to economic union are frustrated by growing conflicts of economic interest.<sup>39</sup>

In the past, crisis after crisis brought out the best in the European Community; only time will tell if the future holds similar promise.

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<sup>39</sup>Ibid., p. 704

## VITA

Kathie Simon Gilbert was born in Akron, Ohio on February 28, 1943. She was graduated from Gadsden High School, Gadsden, Alabama, in 1960 and received a Bachelor of Arts Degree, majoring in Mathematics, from the University of Alabama in Tuscaloosa, Alabama in May 1964. In September of the same year she entered Louisiana State University where she was a graduate assistant in the Department of Economics until May 1968. Since September 1968 she has served as Associate Professor of Economics in the Department of Economics, Mississippi State University at State College, Mississippi. She is married and the mother of two boys. She is currently a candidate for the degree of Doctor of Philosophy from Louisiana State University at the August commencement.

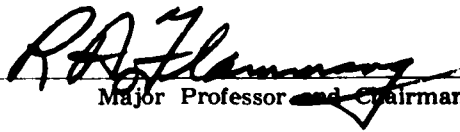
## EXAMINATION AND THESIS REPORT

Candidate: Kathie Simon Gilbert

Major Field: Economics

Title of Thesis: Greece: A Study of an Intermediately Developed Economy with Emphasis  
on its Reaction to Economic Policy and Trade Preferences

Approved:

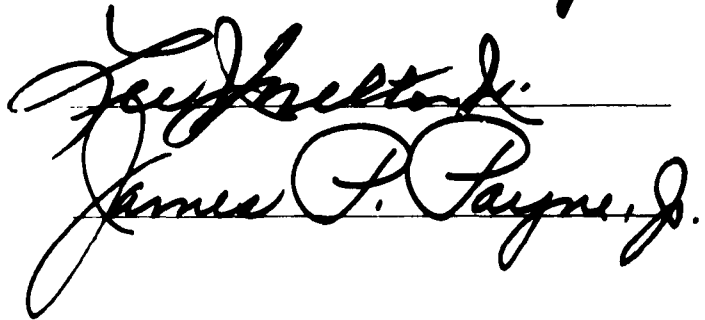
  
Major Professor and Chairman

  
Dean of the Graduate School

### EXAMINING COMMITTEE:







Date of Examination:

June 26, 1972